PLANNING FOR A SHORTAGE ECONOMY

THE INDIAN EXPERIMENT

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FIRST EDITION
January 1952

Printed by V. G. Moghe, B.A., at the Bombay University Press, University of Bombay, Bombay 1, and Published by M. K. Vora for Vora & Co., Publishers Ltd., 3, Round Building, Bombay 2.

PREFACE

The greatest problem in the country today is that of mass poverty. The continuation and even the aggravation of the problem since Independence have led some people to doubt whether Independence was worth having. Such a confusion of ideas arises because of the absence of understanding of the true nature of the complex economic problem facing us. The economy of the country was shattered by the War; before it could be restored it was disrupted by the Partition; the efforts to repair this unusual damage have met with natural obstacles such as repeated failures of the monsoon. They have also met with human obstacles in the form of (a) genuine mistakes of the Administration due to want of experience, (b) want of integrity and capacity in some of those who had the control of public affairs, (c) anti-social activities such as black-marketing and evasion of taxes developed into a fine art and accepted as a common feature of life, (d) impatience of certain classes of producers to obtain rewards and advantages without corresponding effort, and (e) above all the systematic neglect of the middle class, who alone are in a position to contribute soundness and strength to the new democracy. They work more and get less; and are being squeezed out of existence.

In spite of such difficulties which had their counterpart in the political sphere, the National Government showed remarkable capacity and resilience in trying to muddle through them. After several trials and errors, they have realised that the problem of poverty cannot be solved in a short time, that it has to be faced on a national scale, that the scope and volume of the planning effort have to be adjusted to the rate of availability of resources, and that the methods to be adopted have to be realistic and systematic. The vastness and complexity of the problem on the one hand as well as the limitations in our capacity to solve it on the other, have been gradually realised. The Five-year Plan is a reflection of this realisation and must be

described as a modest but realistic effort at a first step on the difficult and long route to prosperity for an economy of widespread shortages.

The Planning Commission has invited criticism and constructive suggestions on the Plan. It has received either faint praise or destructive criticism. Those who do not find room for enthusiasm in the Plan fall in the first category. Those who are impatient and hope to bring about the millenium in a short time by structural changes in society fall in the second category. Either group fails to appreciate the fundamentals of the problem, namely, that we have to build on the economic situation as it is with all its limitations, and that an infant democracy like ours with 90 per cent. illiterate voters under a system of adult suffrage, may not be ready to assimilate rapid revolutionary changes.

The object of this book is to emphasize the essential soundness of the Plan so far as its realistic approach is concerned, and to examine the various problems and proposals with a view to making constructive suggestions. In doing so we have not hesitated to criticise frankly, wherever necessary. We believe that irrespective of political and economic ideologies, all parties in the country can and should join together in improving the technique of the Plan and in helping to implement it properly.

We shall briefly indicate the scope of the various sections of the book. After a rapid review of the early efforts at Planning (I), we attempt a brief picture of the Five-year Plan (II). A comparison is then instituted with the Colombo Plan, which is better known outside India (III). The problem of the rate of investment is then considered and doubts are raised whether even the four per cent. rate of investment can be sustained (IV). In examining the internal financial resources, we have emphasized the need for shifting the burden of taxation to the speculative and trading

classes (V). In discussing external financial resources, we have given due attention to the balance of payments problems which have been ignored in the Plan (VI). The problem of maintaining consistency in real terms is then considered, establishing the need for the collection of data regarding input-output relationships (VII). The need for a programme of austerity has been emphasized (VIII), followed by a discussion of the principles governing the system of priorities (IX). The lacuna in the pattern of outlay which does not give due place to capital intensive projects has been indicated (X). The targets laid down for different spheres have then been examined (XI). The significance of the marginal technique of analysis in determining the choice of projects is explained with illustrations (XII). In discussing the appropriate price policy we have distinguished between the problem of relative prices and that of the general price level. We have also discussed 'dual pricing' (XIII). In connection with the food policy, we have examined the technique of procurement, the need for preventing diversion of land from food to commercial crops, the adoption of monopoly procurement for all crops and the technique of 'block-pricing' to increase production and procurement (XIV). In examining the proposal for the system of co-operative village management, we have pointed out the danger of displacing large numbers of people without adequate alternative employment (XV). The role of private enterprise in mixed economy has been treated at some length and the nature of the factors retarding industrial development indicated (XVI). The organisational network proposed in the Plan is examined with a strong plea for the creation of an Economic Administration Service (XVII). The suggestions for the utilisation of surplus labour and labour-time in the villages have been commended (XVIII), and the need for curtailing the rate of growth of population has been emphasized (XIX). The criticism that the Plan does not provide for full employment, social justice and nationalisation of industries has been examined,

and the merit of the Plan which makes a determined effort to adjust the Planning Programme to available resources has been pointed out with an appeal to all parties to evolve a common front against poverty. The need for the development of economic teaching and economic research is emphasised in the end (XX).

In view of the continuous shortages of various types from which we are suffering, and in view of the numerous problems which either remain unsolved or which will crop up in the course of implementation of the Plan, this great experiment in Planning in a shortage economy in such a large country will be watched with interest both in and out of this country.

Due to my other preoccupations, it has not been possible for me to devote all that time and attention which a work of this nature would demand. This has been however made good in an effective manner by the devoted hard work done by Mr. P. R. Brahmananda, Research Assistant in Economics in this School in helping me to produce the book. He combines youthful enthusiasm and freshness of outlook with a passionate desire to pursue the latest economic thought and technique in their application to our country. But for his perseverance and efforts at all stages of the work, it would not have been possible to bring out this publication. Mr. B. C. Desai, Research Assistant in Economics and Mr. S. N. Nair rendered valuable help in collecting statistical material and the preparation of the manuscript for the press as well as in seeing it through the press. Thanks are also due to Mr. V. G. Moghe, Superintendent of the Bombay University Press for his sincere co-operation in printing the book in the record time of one month.

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15TH December, 1951

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I. INTRODUCTION: THE ECONOMIC BACKGROUND FOR THE PLAN

Early Efforts at Planning; The Bombay Plan: While the publication of the Draft Outline of the Five-year Plan is a landmark in the history of economic planning in India, we may review briefly the evolution of planning in India. The National Planning Committee under the Chairmanship of Pandit Nehru worked for a number of years in dealing with different aspects of the economic development of the country. It helped a great deal in popularising the idea of planning in the country. The first systematic effort, however, towards evolving a national plan for the country was made in 1944, when eight leading businessmen collaborated in publishing a brochure called "A Plan for Economic Development in India" (popularly known as "The Bombay Plan.") The plan envisaged an outlay of Rs. 10,000 crores spread over a period of 15 years, the principal objective being to bring about a doubling of the *per capita* income. It estimated that making allowance for an increase in population of 5 million per annum, the doubling of the *per capita* income within a period of fifteen years required a trebling of the aggregate national income of 1944. This was to be achieved by doubling the net output of agriculture and by increasing industrial output by five times. It was confidently assumed that the resources necessary for the Plan would be within the reach of the community. The planners took note of the resources available in the form of hoarded wealth, sterling securities, balance of trade, foreign borrowing and savings. They also made provision for a certain amount of "created money." The Plan contemplated that on the termination of the war, or shortly thereafter, a national government would be in power at the Centre, vested with full freedom in economic matters. It envisaged the establishment of a National Planning Committee in which all interests would be represented, and which would have the responsibility for drawing up the plans,

whereas a Supreme Economic Council working alongside the National Committee would be entrusted with the execution of the plans. In their schemes, the authors gave due importance to the establishment of capital goods industries and the production of electricity.

The Planning and Development Department: The publication of the Bombay Plan was responsible for initiating and stimulating lively discussions on economic planning in the country. A number of other private plans *viz.* "The Peoples' Plan." "The Gandhian Plan" and "Sir M. Visvesvaraya's Plan" followed in he wake of the Bombay Plan. These plans were based on varying objectives and different approaches. Though from the point of view of creating a lively interest in economic planning as such, these documents served a valuable purpose, their significance was limited and was mainly academic on account of the fact they were all unofficial in character, and lacked the necessary sanction. These 'private' plans, however, succeeded in creating a planning consciousness in the country. This culminated in the establishment of a separate Department of Planning and Development by the Government of India in the year 1944, under Sir Ardeshir Dalal, a signatory of the Bombay Plan. Thanks to the initiative of this Department, a number of Panels for surveying internal resources for the development of different industries was appointed. The Provinces and the Central Departments were also asked to submit plans of development. The Department also issued an Industrial Policy Statement in 1945 demarcating the respective spheres of activities of Government as well as private enterprise in the field of industrial development. It was at the end of 1945 that the Government of India issued instructions to the different Provincial Governments and the Departments at the Centre to assist in the provision of re-employment opportunities for the demobilised personnel from the armed forces. The object was to maintain economic activity by Government expenditure, as it was found that

such activity would suffer at the end of the cessation of hostilities and the consequent stoppage of military expenditure. Those concerned were asked to be ready to spend on those schemes which were likely to create employment and were promised large amount of Central assistance. The Planning and Development Department had only a brief span of life and with the resignation of Sir Ardeshir Dalal in January 1946, the Department was gradually dissolved. Until the establishment of the Advisory Planning Board by the Interim Government in 1946, nothing else took place in this direction.

The Advisory Planning Board: The Advisory Planning Board which met under the Chairmanship of Mr. K. C. Niyogi brought together the various separate schemes of Central and the Provincial Governments. The total cost of the Central and Provincial Five-year Plans was placed at Rs. 1,295 crores out of which the share of the Central Government was Rs. 519 crores and of the Provincial Governments Rs. 776 crores. The Report of the Advisory Planning Board pointed out that the schemes of the Departments of the Central and Provincial Government were based on the assumption that the Centre would be able to provide for development work approximately Rs. 1,000 crores of assistance, Rs. 500 crores derived from revenue surpluses and Rs. 500 crores from loans. The Provinces, therefore, were informed that they could depend on Central assistance to the extent of 50 to 75 per cent. of the cost of their schemes. Schemes for industrial development did not at all figure prominently in the list, as the responsibility for industrial development was to be left mainly to the initiative of private enterprise. The Planning Board contented itself by drawing up targets for expansion in respect of industries.

Errors in the Assumptions underlying the Planning Effort: It must be remembered that the above efforts to formulate different schemes for reconstruction and development can in no sense be characterised as national planning.

They were formulated more or less on a parochial basis and lacked the necessary integration and co-ordination which should characterise any national plan. Even apart from the defects in the technique of planning, which will be indicated presently, the efforts of the Governments suffered from serious drawbacks on account of the errors in the assumptions underlining the formulation of the schemes. In the first place, the Central Government assumed that the post-War situation in India would be characterised by large-scale deflationary pressures,[1] and compensatory investment efforts on the part of the State could alone maintain a high level of employment. In the second place, the Government assumed that the price level in the post-War period would not move in an upward direction and the different departments calculated the requirements of finances for their schemes on the basis of what was more or less a constant price level. Thirdly, the Government assumed that the sterling balances held abroad and the cash balances accumulated within the country would be available for expenditure on investment schemes. The Government did not visualise that the post-War period in India would be characterised by an acute imbalance between food needs and internal agricultural production, and that a large portion of the resources of the country would have to be necessarily devoted for purposes of importing foodgrains.

The post-War situation, instead of manifesting deflationary pressures, was characterised by persistent inflationary trends, the reason for the upward trend in the price level being the policy of the Government itself in trying to maintain expenditure at a high level. The pent-up demand for goods and services on the part of the civilians resulting in large-scale dishoarding of accumulated balances led to a gradual rise in the price level. In the face of the heavy demand for raw materials as well as for capital equipment,

1 I found myself in a minority of one in holding the opposite view in a Committee of the Department of Planning and Development with which I was associated as Economist; a section of the press ridiculed my ideas at the time—ideas which have been borne out by facts subsequently. (C. N. Vakil).

the supply position continued to be as difficult as before. A section of businessmen as well as industrialists indulged in anti-social practices like speculation, hoarding and black-marketing and thus caused the price level to increase by creating artificial shortages. Besides, the Government aggravated internal difficulties by following a vacillating policy in respect of controls.

Independence and Partition: In the meantime, radical changes had been taking place in the country leading to far-reaching alterations in the political as well as the economic fields. The country became independent in August 1947. At the same time the joys of freedom were tempered by the partition of the country which came almost as a corollary of independence. While the emergence of India as an independent country altered the very perspective of the Government in regard to its proper role in economic affairs and led to the formulation of fresh objectives and goals in economic policy, thus increasing the commitments of the Government and at the same time the number and scope of controls, the partition on the other hand acted as a check on the enthusiasm of the new Government and created a host of new problems. The partition placed heavy pressures on the limited resources of the community. It led to a considerable volume of new expenditure which was more or less of an unproductive nature. The division of India leading to large-scale transfers of people between the two countries created a new problem for the country, in that the Government had to spend large funds on providing relief and rehabilitation for the millions of displaced persons. The partition had serious unbalancing effects on the structure of the economy also. The disequilibrium between the agricultural capacity of the country and the needs of the growing population increased as a consequence of the partition. The food problem was aggravated inasmuch as the areas forming part of Pakistan had been normally supplying the Indian territory with about .77 million tons of foodgrains. This was in addition to the

supply of agricultural raw materials in the form of cotton and jute. The two leading industries of India, jute and cotton textiles, were put to serious difficulties on account of the gap in their raw material supplies. India was therefore forced to follow a policy of relative self-sufficiency in respect of almost all the crops, food as well as non-food. The partition increased the dependence of Indian agriculture on rainfall as some of the best irrigated tracts went to Pakistan. It also converted what was internal trade into international trade, and as the dependence of India on Pakistan was relatively more acute than that of Pakistan on India, serious balance of payments difficulties had to be faced by us. Even in respect of our transactions with third countries, the position was worsened on account of the dependence of our export industries for raw materials on foreign countries. On account of the far-reaching nature of the alterations made in our economic structure, the partition of the country was an event of sufficient importance to merit a resurvey of resources and a reformulation of schemes and policies that had been undertaken till then. The Government, on the other hand, could not visualise the full economic significance of the division of India and persisted in carrying out the former schemes of development though they needed considerable revision.

In a similar manner, the post-independence period witnessed remarkable changes in the political map of India. With the disappearance of the Paramount Power, the Government of India gradually reduced the number of Indian States by means of mergers and the creation of Unions. The integration of States with the rest of India provided an opportunity for the first time for the formulation of plans on a truly national basis.

Thus the partition of India as well as the integration of States were two important events which warranted a review of the planning schemes that had been already made. Besides, the statement of the directive principles incorporated in the Constitution indicated a new outlook on the functions and

policies of the State. We had thus changes not only in facts but also in ideas, requiring a thorough re-examination of the former plans.

Increase in the Scope of Government Activities: In spite of the changes that had taken place in the political and economic set-up of the country, the Government did not appear to have been convinced of the immediate need for establishing a Central Planning Organisation to readjust the existing schemes in accordance with the new desires and aspirations and the changes in our economic structure. In the meantime, imbibed with a zeal for augmenting the pace of economic development, the Central as well as the State Governments expanded the scope of their activities and tried to implement a number of former schemes in respect of agriculture, industry and electricity. According to the figures compiled by the Planning Commission at the end of 1950, the total cost of the Central as well as the Provincial schemes amounted to Rs. 3,500 crores. As will be pointed out presently, the plans over-estimated the magnitude of financial resources that would be available. Naturally, the scattered but ambitious efforts in respect of reconstruction and development were bound to create difficulties. These schemes also lacked the necessary integration and co-ordination. In fact we had plans but did not have a Plan.

The National Planning Commission: While the scope of public investment was being increased manifold in the post-Independance period, gradually it was being recognised that a systematic and comprehensive effort was necessary in order to bring order and consistency in the divergent and varied schemes and projects that had been undertaken by the Central and State Governments. At the same time, on account of the lack of a consistent and determined policy in respect of private enterprise, the Government found it increasingly difficult to enlist the co-operation of the private sector for accelerating the pace of development. The Government soon realised that as its resources were limited, it

was in the interests of the country to concentrate the limited resources on new fields of activity rather than on taking over the existing ones. The idea of nationalisation thus receded into the background. The Government announced its industrial policy some time in April 1948, and promised the conference of industrialists that it would initiate systematic efforts for national planning at an early date. The Fiscal Commission which submitted its report in the beginning of 1950 made a strong recommendation in favour of the early establishment of a Central Planning authority. The National Planning Commission was appointed some time in March 1950. The Planning Commission was called upon to make an assessment of the resources of the country, to fomulate a National Plan, to indicate the nature of factors retarding economic development, to determine the nature of machinery necessary for implementing the Plan and also to appraise from time to time the progress achived in the execution of each stage of the Plan.

The Colombo Plan : In July 1950 a Six Year Plan for the country to be placed before the Commonwealth Consultative Committee was prepared. This Plan was later incorporated in the Colombo Plan for co-operative economic development in South and South-east Asia. The Colombo Plan dealt with India, Pakistan, Ceylon, the Federation of Malaya, Singapore, North Borneo and Sarawak. The main object of the Colombo report was to focus world attention on the needs and difficulties of this area. The total expenditure necessary for the Indian part of the Colombo Programme was put at Rs. 1,840 crores, about Rs. 1,030 crores being the amount that could be internally raised, Rs. 810 crores being the amount required by way of external aid. The Colombo Plan included a number of schemes already under progress in the different parts of India and made provision for several new projects also. The Plan laid great stress on the need for building up the basic services in the economy and for making the country self-sufficient in respect of important agricultural commodities and consumer goods. The Colombo Plan, however, did not make any recommendations in respect of the appropriate organisational framework that would be necessary in order to implement the Plan, and the proper lines of economic policy to be pursued in respect of various matters facing the country. Moreover, the Colombo Plan was prepared at short notice and so could not be based on proper estimates in respect of the financial resources that would be available.

The Colombo Plan, however, was motivated with the desire to enlist the co-operation of the Commonwealth and other countries in the task of reconstruction of the war-affected areas of South and South-East Asia. After helping in the preparation of the Indian part of the report, the Planning Commission continued its efforts to formulate a detailed National Plan for the country in consultation with the representatives of the Central and State Governments. It had also discussions with the representatives of private industries and others. It published the Draft Outline of the Five-year Plan some time in July 1951.

The Atmosphere for Planning : Some people may maintain that a good deal of waste and extravagance would have been avoided if the Government had thought of planning as early as when it assumed office. Any attempt at the formulation of a national plan requires a particular set of conditions. In the first place, the objectives of economic policy should be clearly defined, and, in the second place, there should also be a desire on the part of the different units to help and co-operate in the planning effort. More than this, the very formulation of a national plan requires access to statistical data on various aspects of economic activity. During the post-war period the statistical organisation in India was improved and today we are in a position to have some statistical data regarding almost all important aspects of our economic life. There is also a growing consciousness in the country at various levels that the success of planning depends upon the degree of co-

operation of the people, and the desire to make sacrifices for common purposes. From all these points of view it may be stated that the National Planning Commission had more or less a relatively congenial atmosphere for the formulation of the Plan.

Deficiencies in Technique of Planning: The above brief account of the efforts at planning that have taken place in the country serves to place the Five-year Plan in its proper historical perspective. At the same time, in order to understand the approach adopted by the Planning Commission as well as to appreciate the tenor of their policy recommendations, it is necessary for us to get an idea of some of the important deficiencies or defects that characterised the earlier planning efforts on the part of the different Government authorities, Central as well as State:

1. The size of the total planning effort had very little relationship with the volume of the financial resources that were available. The States formulated their plans on the assumption that they would get liberal financial assistance from the Centre. At the same time the Central Ministries had also no clear idea of the extent of resources that would become available to them. It was not surprising therefore that at some stage a number of new schemes would be included, while at another, schemes would be discarded, on which some amount had already been spent.

2. While the planning effort had little relationship with the supplies of financial resources, it had absolutely no relationship at all whatsoever with the quantities of real resources that would be or would become available. The schemes were being continuously held up on account of lack of supplies of materials. Bottlenecks and shortages were common.

3. Many of the schemes themselves were based on ambitious assumptions and at the same time were not formulated on the basis of detailed scientific investigations.

It was not uncommon for certain schemes to be given up after considerable initial expenditure on account of the realisation at a later stage that they were technically not feasible.

4. On account of the parochial nature of planning, the true significance of economic cost was neither understood nor appreciated. Ambitious projects were undertaken on the calculations of the benefits estimated on the basis of the existing price level. The Departments of the Governments or the Governments themselves did not design to consider the alternative addition to national product that could have resulted, if the resources had been utilised in other fields.

5. The economic policy of the Government which determined the nature of the selection of the projects and schemes suffered from lack of perspective as to the proper system of priorities to be adopted under the background conditions of the country. In the face of limited resources, scarce materials were being utilised on what may be considered perhaps as less socially urgent measures. The ends themselves tended to be competitive in character and the lack of balance among the different objectives resulted in the pursuit by the Government of conflicting and contradictory policies.

6. It is generally common to expect a large degree of co-operation and complementarity among the activities of the different sections of the public sector. On the other hand, in the case of the post-War planning efforts in India, on account of the lack of a co-ordinated central agency with suitable powers, it was common to witness competition between the Central as well the State Governments, particularly in the case of the departments dealing with common problems, and also competition amongst the different States with each other.

7. There was little integration among the activities of the different branches of the public sector; there was in fact no integration at all between the activities of the public

and the private sector. In fact, the public sector which undertook the major responsibilities of augmenting the pace of development found it difficult to enlist the co-operation of the private sector in the development schemes. At one stage the public sector extended its scope of activities into the fields which were normally under the scope of the activities of the private sector. This resulted in considerable confusion and increased the shyness of private capital. Gradually the public sector found its hands too full with the activities which it had already undertaken, and the Government had to make a clear statement to the effect that certain activities would be completely left to the initiative of private enterprise. Still, the co-operation from the private sector was not forthcoming to the fullest extent.

Economic Difficulties of the Country : The inability of the Government to follow a consistent and integrated economic policy as well as to work out a co-ordinated system of planning was responsible for a number of trends in the economic situation, which clearly indicate the nature and intensity of the strains and difficulties that the country was forced to face. They are summarised below:—

1. The price level was continuously on the increase. This was partly on account of the vacillating policy followed by Government in respect of controls. Based on mistaken assumptions and under the presure of vested interests the Government followed a policy of decontrol both in respect of food as well as several consumer goods at the end of 1948. On account of the serious imbalance that existed between aggregate demand and aggregate supply and on account of the inelasticity in the productive system which was not in a position to respond to price stimuli, the lifting of controls resulted in the pushing up of the price level by a wide margin. Though the Government reintroduced controls some time in the middle of 1949, the prices had already stabilised themselves at a high level. Instead of following a policy of restraint in respect of public expenditure

and instead of introducing a policy of systematic restrictions in respect of private outlay, the Government encouraged an expansionary policy in respect of aggregate outlay. At the same time, the productive system which was basically characterised by inelasticities and rigidities and shortages, either did not respond or responded very slowly, with the consequence that the gap between monetary demand and the supply forthcoming continued to widen. The price situation again gradually tended to go out of control after the Korean War on account of the stock-piling activity followed by the U.S. and other Governments, which aggravated the problem of shortages of raw materials, and at the same time, gave a powerful upward push to prices by diverting some commodities for export and reducing the quantities available for internal consumption.

2. The balance of payments situation caused serious concern to the Government during 1948 and 1949. This was partly on account of the burden of large-scale food imports, which, besides taking a large slice out of our foreign exchange earnings, even cut into the sterling balances, and partly on account of the liberalisation policy followed in respect of imports. The partition of the country, as pointed out earlier, increased our dependence for raw materials on foreign countries. While our foreign exchange commitments thus increased, we were not in a position to increase our quantum of exports on account of the difficulties in respect of raw materials particularly in regard to raw jute. Though the devaluation of the rupee gave a stimulus to our export trade, the period after the Korean War caused some concern on account of increased prices of raw materials as well as of food.

3. From all points of view the most important economic problem of the post-War period was undoubtedly the food problem. This was a manifestation of the acute imbalance that existed between the growing population and the limited agricultural capacity of the country. The country passed through a period of acute stress and in some periods

some regions had actually to live a 'ship to mouth' existence. The Government, itself, was not successful in following a systematic food policy with due stress on procurement and uniformity of sacrifice. The Government, without realising the basic characteristics of our economy, incorrectly placed a target of self-sufficiency within a period of two or three years. At the same time as the significance of the dependence of the country on raw jute and raw cotton gradually manifested itself, the Government announced a target of self-sufficiency both in respect of food as well as commercial crops forgetting the fundamental economic principle that, given limited land, either more food or commercial crops could be had, but not both. The hectic and somewhat frantic efforts to bring about self-sufficiency in respect of food, and later, of commercial crops, led to large-scale expenditure on what is famous as the Grow More Food Campaign, which came to be called later as Integrated Crop Production Plan. As would have been obvious to any dispassionate observer, who was aware of the country's basic limitations, the concentration of large-scale effort on short-term schemes with a view to getting quick results was bound to lead to meagre results, out of all proportion to the effort and outlay involved.

4. In respect of monetary policy also the Government persisted in a policy of low interest rates forgetting the serious limitations of a cheap money policy in a country beset with inelasticities and shortages. The cheap money policy, instead of augmenting the pace of investment, aggravated inflationary pressures by creating an atmosphere favourable for speculation. Gradually there was a decreasing response to the Government's borrowing policy and the Reserve Bank had constantly to support Government loans. This further aggravated the inflationary trends in the country.

5. The post-Independence period witnessed a desire on the part of the Government to increase both the scale and the scope of the effort of the public sector. The Government embarked upon rapid schemes of economic development. At the same time it increased the number and scope of controls. Along with an increase in the number and nature of the Government's functions there should have been correspondingly an increase in the efficiency of the machinery of administration. On the other hand, on account of the departure of a number of experienced civilian personnel and on account of the relatively inferior quality of the new personnel that were recruited, and also on account of the lack of understanding on the part of the administrative personnel of the significance of the new functions which devolved upon them, the degree of administrative competence was not equal to the new task imposed upon them. This, along with the prevalence of the atmosphere which was psychologically conducive to short and quick gains, led to an increase in the amount of corruption. In spite of the good intentions underlying the control mechanism, the working of controls was far from efficient.

6. The War and the post-War period had witnessed an increase in the incomes of the business and the trading class. This was largely on account of the continued existence of shortages and the prevailing atmosphere of disincentives in respect of investment. The fluctuating policy in respect of controls increased the opportunities of profit for the business and the trading group. It was no wonder that speculation and hoarding became rife during this period and anti-social practices like black-marketing, hoarding and tax evasion and deterioration in the quality of products were not uncommon.

The Economic Background for the Commission : There was thus a number of defects and deficiencies in the situation for successful planning. At the same time, the general atmosphere in the country was gradually deteriorating. In spite of a professed policy for increasing production, shortages in various spheres continued. Prices did not come down. The organisational framework of the Government was unable to cope up with the task, and the public

on the whole was gradually tending to lose its confidence in the Government machinery to realise the targets in respect of production, consumption and distribution that had been promised. It was under this background that the National Planning Commission came into existence. In the first place, the Commission had to think of remedies in order to make up for the deficiencies in the existing system. It did not get an opportunity to work on a clean slate. The nature of the background under which the Commission had to work has to be constantly kept in mind, in order that we may appreciate the difficulties and handicaps which it had to face in drawing up the Plan and in suggesting policy recommendations. The Commission, overawed by the immediate problems of the country and the burden of continuing shortages in respect of essential goods, therefore, determined to lay stress upon the immediate need for providing an adequate supply of consumption goods so that the pre-War standards could at least be restored by the end of 1955-56.

Long-term Trends: At the same time the Commission had also to consider the long-term trends in the economic situation of the country as under:—

1. The population of the Indian Union increased from 236 million in 1901 to 357 million in 1951—an increase of about 50 per cent. in fifty years.

2. There has been very little change in the occupational structure despite considerable development of industries. It is estimated that about 70 per cent. of the working population continues to derive its livelihood from agriculture, which means that there is a great deal of chronic underemployment in the country.

3. The sown area *per capita* has shown a steady tendency to decline. For British India the sown area has declined from 0.88 acres per head in 1911-12 to about 0.71 acres in 1948. Conditions of stagnation have continued to rule in respect of agricultural productivity.

4. In the industrial sector, though there has been a considerable development during the last thirty years, the extent of employment afforded by the organised industries of the modern type amounts to only 2.4 million workers. Thus the industrial sector has not expanded at a pace rapid enough to offset the pressure of population on land, much less to provide plans of raising standard of life for the growing population.

5. Though it is difficult to get comparable data of national income for a period of years, the estimated national income for 1948-49 which works out at Rs. 255 *per capita*, when allowance is made for changes in prices, does not indicate a level of real income higher than that suggested by some of the earlier estimates.

Unless these long-term trends which explain the persistence of mass poverty are corrected through utilisation of resources which are inadequately or inefficiently utilised at present, a substantial rise in the standard of life cannot be secured. The Planning Commission, therefore, had also to pay some attention to the basic problem of development in addition to the problem of post-War or post-Partition readjustments.

II. OUTLINE OF THE REPORT

Introduction

The Commission's draft outline is divided into three parts. The first part explains the approach to planning; the second presents the Plan itself; and the third deals with problems of policy and administration. In the first part of this section, we shall indicate the salient features of the Plan

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and in the second part give a brief outline of the main approach as well as the important policy recommendations. This will give the reader a synoptic picture of the entire report. A fuller examination of the Plan and of important measures of policy is given in the succeeding sections.

A. Salient Features of the Plan

Objectives: The First Five-year Plan for the period 1951-52 to 1955-56 is intended to provide an answer for the immediate problems of the country like high and rising prices, shortages of raw materials, of essential consumer goods and of housing, and the relief and rehabilitation of displaced persons. At the same time the resources of the community are to be utilized for the mitigation of the hardships caused by the activities of some unscrupulous sections of the community, who are making illegitimate gains through black-marketing and profiteering. The Plan also intends to pay due attention to the basic problem of development of the country, in addition to the problem of post-War or post-Partition readjustments.

The Plan aims at completing the various projects which are now in progress and providing for the further development of the economy on a planned basis with the available resources. It intends to remedy the lack of balance and co-ordination evidenced in the post-War development programmes. As some initial expenditure has been already incurred on several schemes which have made some headway, the Plan makes provision for their completion, even though the schemes do not always conform to the optimum pattern of expenditure. The Commission, however, has given priorities to schemes which would develop material and technical resources, and, in particular, increase the production of food and raw materials in a relatively short time over other schemes, which though valuable in themselves, would require a much longer period to bear fruit or call for a range of expenditure which exceeds the present capacity

of the Governments concerned. The Plan has been formulated after detailed discussions with the Centre and the State Governments and private industries, and after an assessment of the proposed schemes and the resources available for their implementation. For the first time, the rate and pattern of development have been outlined from the point of view of the country as a whole.

Financial Resources: The Five-year Plan envisages a total expenditure of Rs. 1,793 crores. It is divided into two parts. The first provides for an outlay of Rs. 1,493 crores, whereas the second part, details of which have not yet been published, has in view an expenditure of Rs. 300 crores. The first part takes into account the resources that can be raised internally through taxation and borrowing and external assistance, which has already been offered to India and which is likely to be available. If necessary a resort to deficit financing to the extent of about Rs. 290 crores, if no further foreign assistance is forthcoming, is also envisaged. The Commission estimates that Rs. 1,121 crores could be raised internally during the period. This includes: (i) Rs. 395 crores normally set apart in the budgets of the Central and State Governments for certain social services; (ii) a revenue surplus of Rs. 200 crores in the accounts of the Central and State Governments; (iii) Rs. 250 crores from small savings and unfunded debt; and, (iv) Rs. 114 crores from the organised capital market. The counterpart funds available through the sales of the food loaned by the United States during the current year (1951-52) will yield Rs. 69 crores. The assistance offered to India by Canada and Australia as part of the Commonwealth Aid Programme envisaged in the Colombo Plan will similarly yield a fund of Rs. 13 crores. If further foreign assistance is not forthcoming, the Commission estimates that Rs. 290 crores would have to be withdrawn from the sterling balances. The Commission has clearly expressed the view that the first part of the Plan should be proceeded with even if it involves a certain element of deficit financing, the strain due to which

could be counterbalanced to some extent by the imports available by the utilisation of sterling balances. The Commission has suggested this alternative in order to avoid a more serious situation in the future.

Raising of Per Capita Standards : The implementation of the first part of the Plan is expected barely to restore the pre-War availability of essential consumer goods by the end of 1955-56. After making allowance for an import of 3 million tons of cereals, it is estimated that at the end of 1955-56, it would be possible to raise the level of food consumption to about 14.50 ounces per adult per day, due provision having been made for the increase in population. The *per capita* consumption of cloth would be raised from 13.4 yards in 1949-50 to about 15 yards in 1955-56, after allowing for exports of about 600 to 700 million yards. The *per capita* consumption of sugar is expected to be raised from 6.3 lbs. in 1949-50 to about 8.3 lbs. in 1955-56. In respect of railways, the Plan intends to restore the pre-War operating efficiency. The second part of the Plan involving an outlay of about Rs. 300 crores is intended to make provision for certain immediate needs of investment for stepping up the pace of economic development. The Commission has stated that the first and the second parts together represent an order of outlay necessary not merely for achieving greater progress, but also for holding out promise of a pace of development that would inspire the country to a greater and more sustained effort.

Priorities : In the first part of the Plan the following priorities are kept in view :—

(1) Completing of programmes in hand including rehabilitation of displaced persons ;

(2) Increasing the production of food and raw materials over a relatively short period ;

(3) Implementing schemes essential for developing material and technical resources and enlarging the scope for employment ;

(4) Consolidating progress already made in social services and providing for gradual expansion ; and,

(5) Providing for more adequate administrative and social services and a more rapid rate of development in the less developed States.

Distribution of Outlay : Table 2 (p. 30) indicates the detailed distribution of outlay. The following table gives a consolidated picture according to different heads :—

TABLE 1

Pattern of Outlay in the Five-year Plan

(Rupees crores)

Sections	Outlay during 1951-56 Rs.	Percentage to total outlay %
Agriculture	192	13
Irrigation and Power	450	30
Transport and Communications	388	26
Industry and Minerals	101	7
Social Services	254	17
Rehabilitation	79	5
Miscellaneous	20	2
Total ...	1,403	100

Rate of Investment : It will be seen that as the bulk of the resources are to be employed for the development of agriculture, irrigation and power, and social services, it will not be possible for the State itself to make large investment in industry. The private sector will thus continue to play an important part in respect of production as well as distribution. The Plan, however, contemplates an assistance of Rs. 32

crores to the various industries. It is estimated that the total investment by industries in the private sector would amount to about Rs. 300 crores. This includes: Rs. 80 to 90 crores raised from the capital market; Rs. 32 crores of assistance from the grant to the large-scale industries; Rs. 10 to 15 crores of loans from the Industrial Finance Corporation and Investment Corporations; Rs. 60 crores of refunds of Excess Profit Tax deposits; and Rs. 70 to 110 crores of reinvestments from reserves and profits. If we include the estimated outlay during the period by the private sector, the total outlay during the five-year period would amount to about Rs. 1,800 crores or an annual rate of investment of Rs. 360 crores. Taking the total National Income of India estimated at Rs. 9,000 crores, the rate of gross investment would work out to less than 4 per cent. In respect of the public sector this would mean raising development expenditure by only 10 per cent. above the rate of outlay in 1950-51, which, however, was nearly twice the rate in 1948-49, the first year of independence.[1] The Plan is devised not as indicating a spectacular increase in the outlay on development, but to raise the tone of development through a more effective distribution of resources and though a consolidation of the achievements at each stage. If foreign aid becomes available, the rate of outlay on development can be stepped up by about a third over the level of 1950-51. The rate of outlay over the period 1951-53 in the first part of the Plan (Rs. 655 crores) is relatively higher than in the following period. It is explained by the increased tempo of expenditure on irrigation and power schemes which are in operation and which cannot be staggered further.

1. The Commission has not taken note of the rate of development in real terms when comparing the outlay in 1948-49 and in 1950-51. Inasmuch as the general price level has gone up by nearly 25 per cent. during these three years, it does not appear to us that the stepping up of the rate of development in monetary terms *does* indicate any actual increase in the real rate of expansion over what was contemplated in 1948-49. If we do not keep this in mind, it is quite possible that we may go away with the impression, that we are trying to achieve more than what was our intention in 1948-49.

TABLE 2

Detailed Distribution of Outlay

(Rupees crores)

Heads of Expenditure	Outlay			Percentage to total outlay
	Central	States	Total	
Agriculture and Rural Development	18	174	192	13.0
Agriculture	12	125	137	9.0
Animal Husbandry & Dairying	4	18	22	1.4
Forests	1	9	10	0.6
Co-operation	—	7	7	0.5
Fisheries	1	3	4	0.3
Rural Development ...	—	11	11	0.8
Irrigation and Power	176	274	450	30.0
Multi-purpose projects ...	176	57	233	15.6
Irrigation	—	103	103	7.0
Electricity	—	114	114	7.6
Transport & Communications ...	310	78	388	26.0
Railways	200	—	200	14.0
Roads	23	71	94	6.3
Road Transport	—	7	7	0.4
Shipping	16	—	16	1.1
Civil Aviation	16	—	16	1.1
Ports and Harbours	10	1	11	0.8
Posts and Telegraphs	40	—	40	2.7
Broadcasting	4	—	4	0.3
Industry and Minerals	75	26	101	7.0
Large-scale industries ...	65	14	79	5.3
Cottage and small-scale industries	5	11	16	1.1
Scientific and Industrial Research	5	—	5	0.3
Minerals	1	—	1	0.1
Social Services	54	200	254	17.0
Education	32	92	124	8.3
Health...	5	78	83	5.5
Housing	14	9	23	1.5
Labour and Labour Welfare	4	3	7	1.2
Backward Classes	—	18	18	5.3
Rehabilitation	79	—	79	5.3
Miscellaneous	22	8	30	2.0
Grand Total ...	734	759	1493	

Emphasis on Agricultural Development : The principal emphasis in the Plan is on agriculture and irrigation. Out of a total outlay of Rs. 1,493 crores, Rs. 528 crores or about 36 per cent. is devoted to these purposes. In a predominantly agricultural economy the tempo of development will depend in the initial stages largely on the volume of agricultural production and the surplus that is available from it. The impact of the partition has fallen heaviest on the agricultural sector. The development of agriculture requires progress in many spheres; irrigation facilities must be expanded, fertilisers must be provided on a large-scale, technical knowledge and equipment must be made available to the farmer, and additional employment opportunities in the rural areas should be created.

Irrigation : The first part of the Plan contemplates an expenditure of Rs. 450 crores on irrigation and power schemes. The total cost of projects included under these heads is Rs. 729 crores, of which Rs. 138 crores have already been spent. The projects are calculated to irrigate an additional area of 8.7 million acres by 1956 and to provide additional power amounting to 1.1. million kilowatts. This will increase the irrigated area of the country by 20 per cent. On completion these projects are expected to irrigate an additional area of 16.5 million acres. In the second part of the Plan, further irrigation and power projects are likely to be proposed.

Targets in Agriculture : The following table gives an idea of the additional production targets in respect of agriculture to be achieved by 1955-56 :—

TABLE 3

Targets of Expansion in Agriculture

	(*in thousand tons*)
Foodgrains	7,200
Jute	308(*a*)
Cotton	120(*b*)
Oilseeds	375
Sugar (in terms of gur)	690

(*a*) 2,060 thousand bales of 400 lbs. each.
(*b*) 1,200 thousand bales of 392 lbs. each.

It is hoped that the increase in output envisaged in the Plan will reduce the need for imports of food, which are put at 3 million tons by the end of 1955-56. The improvement in respect of raw materials is expected to be greater. In the case of cotton the demand of Indian mills for domestic varieties will be met in full and it will be necessary to import only about 7 million bales of foreign varieties which cannot be grown in the country. As regards jute, the import demands will be reduced from 3.3 million bales to about 1.2 million bales.

Industrial Development : Since industrial development is mainly the responsibility of the private sector and since Government have on hand other schemes of development, the Plan makes only a limited provision for expenditure on industries in the public sector. The outlay takes the form of assistance to private agencies for expansion in steel, shipbuilding, newsprint, and small-scale industries, and expansion in state-owned enterpries like fertilisers and machine tools. The following aims are set forth for industry:—

(1) Meeting the demands for industrial products on account of schemes for agricultural products and expansion of irrigation and power ;

(2) Fuller utilisation of existing capacity of producer goods industries like jute and consumer goods industries like cotton textiles, sugar and soap ;

(3) Expanding the capacity of industries producing pig iron, steel, heavy chemicals, etc., which are of basic importance to the general economic development of the country ;

(4) Completion of industrial units on which some capital expenditure has already been incurred ; and

(5) Removing the lacuna and drawbacks in the existing industries.

Targets in Industry: With increased output of cotton, the cotton textile industry is expected to be in a position to produce 4,500 million yards of cloth. The sugar industry will also be able to work at full capacity and produce about 1.5 million tons of sugar by the end of 1955-56. This would be rendered possible on account of the increased output of sugarcane for which provision has been made in the agricultural targets. With increased availability of raw jute the output of the jute industry is expected to be stepped up from 836 thousand tons to 1,065 thousand tons by 1955-56. In the case of other large-scale industries the increases in production are estimated as follows:—

TABLE 4

Targets of Expansion in Industry

(in thousand tons)

	Production in 1950-51	Estimated Production in 1955-56
Steel	1,005	1,315
Cement	2,613	4,600
Aluminium	4	20
Paper and Paper Boards	109	165
Newsprint	—	24
Salt	2,622	3,075

Electricity: In the case of electricity, the Plan makes provision for an expansion of about 1.1 million kilowatts. This would lead to an increase in our electricity production capacity from 1.5 million kilowatts in 1950 to 2.6 million kilowatts by the end of 1956 or an expansion of more than 70 per cent. over the present level. On completion, the electricity projects are expected to increase the power capacity by about 2 million kilowatts.

Railways: The Commission plans to spend about Rs. 388 crores or 26 per cent. of the total outlay on rehabilitation in transport and communications. If we include expenditure available from depreciation of railway assets to the tune of Rs. 150 crores, the total expenditure will amount to Rs. 638 crores. The expenditure on railways takes a major share and amounts to Rs. 350 crores if we include the expenditure in respect of depreciation. The programme for railways is intended mainly to bring about a degree of operating efficiency which would compare favourably with pre-War standards. The Plan makes provision for large-scale renewals in respect of locomotives, wagons and track. It appears that a provision for an expenditure of Rs. 100 crores will be made in the second part of the Plan for undertaking some urgent schemes of expansion in respect of railways. Among the schemes included in the outlay on railways is the Chittaranjan locomotive factory, which is expected to go in for production in 1953. On the whole, the main objective of the Commission in sanctioning expenditure on railways is to concentrate on making up for the arrears of replacement.

Shipping: In respect of shipping, the Commission has made provision for an increase in tonnage by 80,000 tons for coastal trade and by 125,000 tons for the overseas trade. The Government is expected to assist in the acquisition of ships to the extent of Rs. 10.5 crores. There is also provision for investment by Government of about Rs. 4.5 crores to enable the Eastern Shipping Corporation, which was set up for assisting Indian Shipping to participate in overseas trade, to acquire 60,000 additional tons of shipping. The Commission hopes for assistance from the World Bank for acquisition of tonnage, especially, in view of the importance of shipping for the transport of food. The expenditure of Rs. 14.9 crores for assistance to shipping excludes the Government assistance of Rs. 12 crores to the Vizagapatnam Shipyard. All told, the addition to total tonnage on account of the above mentioned forms of assistance would amount to

about 70 per cent. of the existing tonnage of 378 thousand on the Indian coast. The Commission has given priority to the replacement of obsolete tonnage, and therefore has made provision for financial assistance to the companies, which are not in a position to obtain funds for replacement on their own.

Civil Aviation : The capital expenditure on civil aviation includes mostly expenditure on works and equipment. The Commission makes provision for the replacement of Dakotas and Vikings by jet type of aircrafts for the Air-India International. This would mean an additional capital expenditure of Rs. 5 crores. The Plan also provides for a sum of Rs. 2.5 crores for assistance to private companies for purposes of replacement of their fleet.

Roads : The Plan makes provision for only a moderate scheme of expansion in respect of roads. The main attention is on the filling up of missing links and of reconstruction of bridges. It is expected that 750 miles of roads out of the total missing links of 1,600 miles will be undertaken. Out of the total 112 missing bridges the Plan would reconstruct 60 bridges. It also provides for the upgrading of approximately 2,200 miles of road surface in the National Highways.

Housing : The Plan has given significant priority to schemes of industrial housing and housing for low income groups. The total expenditure in respect of housing is expected to amount to Rs. 23 crores out of which the share of the Central Government would be Rs. 3.5 crores.

Education : As most of the expenditure in respect of education schemes falls on the State Governments, we do not have detailed information regarding the breakdown of this expenditure. The Plan, however, makes a provision of Rs. 123 crores towards expenditure on extension in education. This would be in addition to the normal expenditure on education.

Rehabilitation : The Plan also makes a provision for an expenditure of Rs. 79 crores in respect of rehabilitation of displaced persons. The detailed breakdown of the schemes are not indicated in the Plan. Most of the expenditure in respect of rehabilitation, though financed by the Central Government would be actually undertaken by the State Governments.

Social Services : In regard to Social Services, the Plan seeks in the main to consolidate the development initiated during the last five years, to complete the schemes on hand, and to provide only for a modest measure of expansion.

Share of Central and State Governments : The expenditure of Rs. 1,493 crores in the first part of the Five-year Plan is divided almost equally between the Central and the State Governments, the share of the former being about Rs. 734 crores and the latter Rs. 759 crores as indicated in the following table :—

TABLE 5

Share of Central and State Governments

(Rupees crores)

Central Government	734.00
Part 'A' States	559.63
Part 'B' States	171.00
Part 'C' States	28.30
Total ...	1,492.98

If the expenditure on Bhakra Nangal, Damodar Valley, Hirakud and Harike (Rs. 176 crores) and the portion of the expenditure on refugee rehabilitation forming part of the outlay of State Governments are included, we find that the share of the States would amount to Rs. 975 crores, or

about 65 per cent. of the total outlay. The principle governing the distribution of responsibility for development is based on the premise that the States would concentrate on agricultural and rural development, social services and the expansion schemes of transport and communications falling within their jurisdiction. The Plan makes provision for grants-in-aid and loans to State Governments to the extent of Rs. 211 crores.

B. Main Lines of Approach and Policy

(1) The Commission has drawn a clear distinction between the background conditions of advanced countries and those of backward countries like India. In the case of backward countries, corresponding to idle labour, there are no adequate supplies of other co-operating factors of production, such as land and capital equipment. Full employment as a goal of policy is therefore not directly applicable to the conditions of India. A programme of full employment can be implemented only after some progress is made in removing some of the structural difficulties of the economy. A development plan is essentially 'an effort to create conditions of full employment.' The Commission, however, emphasises the importance of cottage and small-scale industries in the reduction of unemployment and under-employment. These industries are labour-intensive in character.

(2) On account of the shortages in the supply of capital, the Commission has suggested that attempts should be made to utilise the surplus labour-time of rural as well as other folk in wealth-creating activities like roads, canals, wells, tanks, building, etc. Wherever labour can be a substitute to capital the adoption of this suggestion would lead to creation of some wealth, where nothing else would have been possible, if we had to wait for adequate supplies of capital either in real or in monetary terms. The Commission has also suggested suitable organisational media, particularly in villages, in order to carry out the above suggestion.

(3) Dealing with the problem of economic equality and social justice, the Commission has pointed out that large-scale investment by the State for basic development is a major instrument for securing economic equality. For, it is through such investment only that the millions of agriculturists and other rural workers in the country will be able to build up economic strength. The abolition of zamindari, the fixation of fair rents for tenants, the provision of security of tenure for the cultivator, and the progressive substitution of usury by organised credit at reasonable rates are steps calculated to promote economic and social equality. The Commission has recognised that under the existing conditions in the country the rate of capital formation would tend to be affected, if the state adopts a policy of radical redistribution of incomes.

(4) Dealing with progressive taxation, the Commission points out that the rates of direct taxation at present in the highest income ranges are close to the rates prevalent in countries like the United Kingdom. Any material increase in direct taxation at this stage is likely to affect the capital market adversely. The Commission, however, suggests that stringent measures should be taken to put a stop to tax evasion. In determining the appropriate rates of personal taxation, the main point for consideration is the extent to which personal savings are to be relied upon for maintaining capital formation at the desired level. The Commission suggests measures to encourage the ploughing back of profits into industry. Corporate savings should henceforth play a far more important role than private savings. Private industry should adopt a voluntary freeze on dividends for a limited period. Measures should also be taken to encourage small savings. In order to reduce inequalities of wealth the Commission suggests that necessary legislation should be enacted for introducing death duties.

(5) The Commission, has, however, suggested certain new forms of taxation as well as an increase in the rates of several existing taxes in the case of the State Govern-

ments. Higher income from land estate duties, wider coverage and better administration of sales-tax, preferential levies on commercial crops, betterment levies and water rates, minor taxes on entertainment and motor vehicles are included among the new sources of revenue. It will be seen that there is an implicit effort to increase the amount of tax contribution from the agricultural sector. This is more or less due to the assumption that on account of the relatively better terms of trade that the agricultural commodities have enjoyed as compared to industrial commodities, the rural class as a whole is in a position to bear additional tax burdens.

(6) Dealing with the technique of planning the Commission has suggested that an expansion of the public sector at the present stage is neither necessary nor desirable. The resources available to the public sector have to be utilised for investment along new lines rather than on the acquisition of existing production capacity. It has, therefore, recognised that the private sector has an important part to play in production as well as distribution. There should be, however, numerous points of contact and interaction between the two sectors. In this connection, it has suggested the establishment of a Development Council for each industry. These Councils will provide the appropriate machinery for planning in the private sector and will bring it in line with the public sector in the scheme of national planning. The development councils are expected to develop a system of management in private industry, which is efficient in itself, and is to function in the interest of the community as a whole. The Commission has exhorted private enterprise to visualise for itself a new role and to accept a new code of discipline in the large interests of the country.

(7) The Commission points out that there are special considerations which might lead to the adoption of a different attitude in respect of trade. The tendency to utilise too much of resources on the distribution of goods rather than on their production should be discouraged. The Commission suggests the starting of co-operative distribution agencies, or in some cases state trading organisations, in order to provide a corrective to the private trade, and to help in the regulation of the prices of certain commodities subjected to wide fluctuations. A beginning can be made in the field of export trade.

(8) The Commission recognises that under the present conditions it is difficult to follow a strong disinflationary fiscal policy, at the same time as the Government embarks on a large-scale development programme. This is on account of the fact that the minimum amount of development expenditure necessary from the point of view of relieving immediate tensions and of avoiding a serious situation in future is fairly high. From the long-term stability of the country, it is therefore not advisable to curtail the rate of public investment, even though during the development period as such there would be a heavy strain. It is in this context that the Commission has made a definite suggestion that if the expected foreign assistance amounting to Rs. 290 crores is not forthcoming, the first part of the Five-year Plan should be proceeded forthwith, even if it involves an element of deficit financing, taking the form of a planned withdrawal of sterling balances.

(9) The country's import-export policy should be aimed at making full use of the sterling balances that are available. An improvement in the export earnings should be immediately followed by relaxation of restrictions on private imports. If foreign aid is available for financing development expenditure, the sterling balances should be used for importing consumption goods.

(10) The objective of the monetary policy should be to encourage saving on the the one hand, and to discourage socially undesirable or economically less urgent investment on the other. The powers and the prestige of the Reserve Bank should be increasingly used to prevent bank credit from flowing into speculative channels.

(11) The objective of price policy should be firstly, to prevent a further rise in prices and to the extent possible to bring them down; and secondly, to maintain the parities between sectional prices such as those of foodgrains and commercial crops as to provide a right measure of incentives to producers in these lines. The Commission remarks, that for some time to come inflationary pressures will continue to operate, and it will be necessary to maintain and improve upon the existing system of controls. It stresses the need to reduce as far as possible the impact of foreign prices on the internal economy. The proceeds of export duties should be used to subsidise the imports of essential commodities.

(12) The Commission has viewed the food problem as a manifestation of the disequillibrium caused by the continuously growing pressure of population on food supply. It is therefore to be resolved not through short-term expedients, but through the careful and substained application of the relatively long-term measures. The Commission recommends monopoly procurement and urban rationing as minimum measures which should prevail in all States. Provision should be made for annual imports of foodgrains of about 3 million tons. A reserve of a million ton should be built up internally to meet emergencies and to influence prices.

(13) The Commission holds that the central problem of Indian agriculture is to change its character from subsistence farming to economic farming, and to bring about such changes in its organisation as to introduce a substantial measure of efficiency in farming operations, and to enable the low income farmer to increase his return. For the community as whole, it would be better, if certain lines or patterns of reorganisation of agriculture are broadly accepted as a common national programme, towards the fulfilment of which, the administration and the people should bend their energies. The Commission rejects the nationalisation of land as an impracticable course and points out the difficulties in the way of a policy of ceiling on individual holdings.

The main solution, according to the Commission, lies in the direction of co-operative cultivation. It recommends Co-operative Village Management as the ultimate objective in the reorganisation of agriculture. The area of the village should become the unit of land management, and all the land of the village should be regarded as a single farm. Rights of ownership should be recognised and compensated for through an ownership divided. Cultivation should be organised to the maximum advantage of the community. Co-operative Village Management is to be introduced in any village where at least owners of two-thirds of the cultivated area of the village express their preference for this system.

(14) In respect of immediate action, the Commission recommends the establishment of Village Production Councils and of Registered Farms, and the promotion of co-operative farm societies. The village production council is expected to act as the channel through which all government assistance is provided to the villlage, and as the agency for utilising the resources of the village to the best possible advantage. All holdings above a level should be organised as Registered Farms and those below the prescribed level should be encouraged to form small co-operative farms. The Registered Farms are to function according to certain stipulated rules and regulations.

(15) The Commission has made detailed proposals for a rural extension service for organising intensive work at village level for groups of about ten villages with a population of about 5,000 and larger blocks of 50 to 60 villages with a population of 25,000 to 30,000. The activities of all the departments dealing with agriculture should be co-ordinated.

(16) The Commission recommends the establishment of a tripartite machinery for the determination of norms and standards, which should govern the settlement of industrial disputes. The way for the betterment of the standard of living of the worker lies only through a fall in prices or an

increase in productivity. Any upward movement in the wages, which would be reflected in the cost of living, should be avoided. The Comission also recommends the establishment of a Central Wage Board.

(17) The Commission has worked out a scheme for financing industrial housing on the basis of contributions from the workers, employers and the State. It recommends the establishment of a National Housing Board as well as regional boards.

(18) The Commission has pointed out that the problem of rehabilitation of refugees should be viewed not in isolation, but as a part of a much larger programme of development, which is calculated to help in the rehabilitation of displaced persons.

(19) In respect of family planning, the Commission recommends that the State should provide the facilities for sterilisation, and for giving advice for contraception on physical as well as on social and economic grounds.

(20) The Commission urges that it should be one of the first tasks of Government to improve the working of all controls. In this respect suggestions have been made for improving the machinery of administration. For the efficient conduct of State enterprises, the Commission has suggested the establishment of a Central Board.

(21) Holding that the development of small-scale and cottage industries should proceed on complementary lines along with the development of large-scale industries, the Commission has suggested a new organisational set up in order to solve the problem of these industries. It has suggested the levy of a cess on large-scale industries in order to develop small-scale industries, and has made interesting suggestions for the apportionment of raw materials as well as markets between the large and small-scale industries.

(22) In order to enlist the maximum amount of public co-operation the Commission has suggested the establishment of a national volunteer agency (called the Bharat Seva Sangh) for volunteer welfare work and to provide an opportunity for increasing the amount of voluntary effort. The Bharat Seva Sangh will be a non-partisan and non-political organisation.

III. COMPARISON WITH THE COLOMBO PLAN[1]

Introduction : As we pointed out earlier, the National Planning Commission was called upon in July 1950 to prepare a Six-Year Plan of economic development of the country to be placed before the Commonwealth Consultative Committee for South and South-East Asia. With the assistance of the Department of Economic Affairs and the Reserve Bank of India, the Commission completed this task by the end of August 1950 and the plan was later incorporated in the Colombo Plan for co-operative economic development in South and South-East Asia. The Colombo Plan is an important landmark in international economic co-operation. The aim of the Colombo Plan was mainly to work out programmes of economic development of South and South-East Asian countries, and to present a co-ordinated picture of the nature of the problems and the volume of foreign assistance necessary for the completion of the programmes. The Indian part of the Colombo Plan envisaged an outlay of Rs. 1,840 crores, out of which internal finance available for development was estimated at Rs. 1,030 crores. The Colombo Plan was for a six-year period, *i.e.* from 1951 to 1957 whereas the Five-Year Plan is obviously for a five-year period *i.e.* from 1951 to 1956.

Comparison of Outlay : Table 7 gives the pattern of outlay in the two Plans and indicates the variation in emphasis on different heads of expenditure.

1. *Vide* Section VI for a comparison of the extent of external dependence in both the Plans.

TABLE 7

Pattern of Outlay in the Colombo and the Five-year Plans
(Figures in brackets indicate percentages)

(Rupees crores)

Sections	Colombo Plan (1951-57)	Five-year Plan (1951-56)
TOTAL OUTLAY	1,840	1,043*
Agriculture, Irrigation and Power ...	666 (36.2)	642 (39.1)
Transport	703 (38.2)	538 (32.7)
Railways	480 (26.0)	350* (21.3)
Roads	110 (5.9)	94 (5.7)
Ports and Harbours	10 (0.5)	11 (0.6)
Industry	180 (9.7)	101 (6.1)
Social Capital	291 (15.7)	254 (15.5)
Education	114 (6.2)	123 (7.5)
Housing	18 (1.0)	23 (1.3)
Health	52 (2.8)	84 (5.1)
Rehabilitation	75 (4.0)	79 (4.8)

* Includes outlay on depreciation of assets in the period of the Plan amounting to Rs. 150 crores.

As indicated in the note, we have taken into account the first part of the Five-Year Plan only and for purposes of comparison, we have included the outlay on depreciation of railway assets amounting to Rs. 150 crores in the total outlay under the Five-Year Plan, as the outlay on depreciation formed a part of the Colombo Plan. If we take the first part of the Five-year Plan into account, the Colombo Plan was larger in scope. If we take the second part of the Five-year Plan, which relies entirely on foreign assistance, we find that the Five-year Plan envisages an outlay of Rs. 1,943 crores, an amount which exceeds the Colombo Plan by Rs. 103 crores.

Internal Resources: In the Colombo Plan, the total internal resources available for development were calculated at Rs. 1,030 crores whereas in the Five-year Plan, these resources amount to Rs. 1,271 crores. The Colombo Plan was based on an under-estimate of the amount of internal

resources that would be available during the period. Actually as the Five-year Plan estimate deals with only five years, one year less than the period in the Colombo Plan, the annual average of resources that would be available, amounts to Rs. 254 crores according to the Five-year Plan estimates, whereas in the case of the Colombo Plan it amounts to Rs. 172 crores. For all purposes, therefore, the total amount of internal resources that are expected to be available under the Five-year Plan exceeds the resources for a similar period in the Colombo Plan by about Rs. 415 crores. The following table gives a comparative idea of the sources of finance in both the plans:—

TABLE 8

Sources of Finance in the Colombo and the Five-year Plans

(Rupees crores)

	Colombo Plan	Five-year Plan
Revenue Account[1]	490	568
Surpluses of State Enterprises (mainly Railways)[2]	180	156
Depreciation of Railways Assets ...	120	150
Net Borrowings from the Public ...	240	364
Miscellaneous Funds[3]	—	33
Total ...	1,030	1,271

1. Includes the amount set apart in the Revenue Account for developmental purposes.
2. Includes the contribution of railways to general revenues and the resources available from the railway development funds.
3. Figures are net. We have deducted the amount to be spent on non-development items on capital amount.

According to the Colombo Plan, the revenue resources of the Central and the State Governments were expected to contribute an amount of Rs. 490 crores or an annual average of Rs. 82 crores. In the Five-year Plan the revenue resources are expected to provide Rs. 568 crores or an annual average of Rs. 114 crores. These amounts include in the case of

both the plans the resources normally set apart in the revenue account for developmental schemes. As regards borrowings from the public, the Colombo Plan calculated that Rs. 240 crores would be available. In the Five-year Plan the collections by way of borrowings are estimated at Rs. 364 crores or an annual average of Rs. 73 crores. The amount available from the depreciation of railway assets was put at Rs. 120 crores in the Colombo Plan, whereas in the Five-year Plan the same has been put at Rs. 150 crores. The annual average works out to Rs. 20 and 30 crores respectively. The Colombo Plan had made provision for Rs. 180 crores or an annual average of Rs. 30 crores as the amount available from the surpluses of state enterprises (mainly railways). In the case of the Five-year Plan, this amounts to Rs. 156 crores or an annual average of Rs. 31 crores, which is only one crore more than the estimate in the Colombo Plan. The Colombo Plan made no provision for collections from miscellaneous funds whereas in the Five-year Plan these sources are expected to provide a net sum of Rs. 33 crores (after deducting the resources to be set apart for non-development expenditure on capital account).

Rate of Investment : If we take into account both the parts of the Five-year Plan, the annual rate of investment in the public sector amounts to Rs. 388 crores whereas in the case of the Colombo Plan the annual rate worked out to Rs. 307 crores. Obviously the Five-year Plan represents a greater scale of effort.[1] The estimates in respect of the Five-year Plan appear to have been based on a more detailed examination.

Shifts of Emphasis : The Indian part of the Colombo Plan included a number of schemes which were already under execution and also several new schemes which were under contemplation. On account of the opportunity which

1. Even if we make allowance for the increase in the price level (8%) during the period between the preparation of the Plans.

the Planning Commission had for a more detailed survey in respect of the schemes, there has been a substantial alteration among the projects that had been included in the Colombo Plan. There has been considerable pruning in respect of the outlay on railways which formed 26 per cent. of the Colombo Plan, but now get only 22 per cent. In respect of industry, there has been a significant shift of emphasis. The first part of the Five-year Plan does not include the outlay in respect of the starting of two new steel factories. The percentage expenditure on industry has been reduced from 10 in the Colombo Plan to 6 in the Five-year Plan. There has been, however, an increase in the outlay on health schemes, for they form 5 per cent. in the Five-year Plan as compared to 3 per cent. in the Colombo Plan.

Revision in Cost Estimates : We should, of course, take note of considerable alterations in respect of cost estimates of several State ventures. The Damodar Valley Project, which was expected to cost Rs. 50 crores, is now estimated to cost Rs. 75 crores; the Hirakud Dam, which was estimated to cost Rs. 30 crores, is now expected to cost Rs. 63 crores; the Bhakra Nangal, which was estimated to cost Rs 76 crores in the Colombo Plan, is now expected to cost Rs. 133 crores[1]; The Tungabhadra Project which was estimated to cost Rs. 32 crores, is now estimated to cost Rs. 50 crores. The Colombo Plan included multi-purpose projects like Chambal and Kosi which do not at all find any mention in the Five-year Plan.[2]

1. In the Colombo Plan it was stated that these three projects would bring about 6 million acres of new land under irrigation by 1956-57 and would increase electricity generating capacity by 708 thousand kilowatts. The corresponding figures in the Five-year Plan are 2.2 million acres and 331 thousand kilowatts !

2. These comparisons indicate the haste (or lack of care) with which the Colombo Plan was prepared. These revisions are not primarily due only to changes in the price levely. In fact even at the time when the Colombo Plan was being prepared, announcements from the different authorities concerned had been made to the effect that the cost estimates had been already marked up to some extent.

Emphasis on Public Sector: There is one distinct similarity between the Colombo Plan and the Five-year Plan. In the Colombo Plan a relatively larger emphasis was placed on projects of the public sector. In fact, it was clearly stated, that public investments should get priority over private investments. Further, the Colombo Plan gave a significant emphasis on projects calculated to lead to expansion in our agricultural as well as power capacity. The objective was to concentrate on the building up of the basic services of the country in the hope that a larger pace of expansion in respect of industry could be envisaged after the completion of the Plan. On account of this, industrial development as such received a relatively smaller emphasis in the Colombo Plan. A similar attitude in respect of industrial development is seen in the Five-year Plan, which has also concentrated on the public sector, and specially on activities relating to agricultural and electrical development.

Targets in the Plans: If we compare the targets in the two Plans, it is found that though the proportion of expenditure on different activities remains more or less the same, the Five-year Plan indicates considerable increases in the estimated expansion in respect of foodgrains. The following table gives these details :—

TABLE 9

Targets in the Plans

(in thousand tons)

Commodity	Colombo Plan Target	Five-year Plan Target
Foodgrains	3,000	7,200
Cotton	195	120
Jute	375	368
Oilseeds	1,500	375

It will be seen that there has been a 140 per cent. increase in respect of the production of foodgrains; this is, in spite of the fact that the outlay on agriculture appears to be more or less the same. In the case of oilseeds, there has been a significant reduction in the estimated output. The differences between the Five-year Plan and the Colombo Plan are partly due to the fact that the Colombo Plan was prepared at short notice and the Planning Commission had very little time to go into the details of the various estimates both in respect of financial resources available as well as the outlay on various schemes. The targets vary also on account of the fact that at the time of the preparation of the Colombo Plan, full information might not have been available. The Colombo Plan estimated that it would be possible to increase adult cereal consumption from 12 ounces to 16 ounces per day by the end of 1957, whereas the Five-year Plan makes provision for 14.50 ounces per adult per day by the end of 1956. In respect of cloth, both the plans make provision for 15 yards per person.[1]

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IV. RATE OF INVESTMENT IN THE PLAN

Rate of Investment and National Income: The objective of planning in a backward country like India is obviously to increase the rate of investment. Under a background of inflationary conditions, when there are only limited resources that can be utilised for purposes of capital

1. A careful reader may ask as to how the Colombo Plan which made allowance for an addition of 3 million tons of cereals during the planning period could assure 16 ounces per day at the end of the period, whereas the Five-year Plan, in spite of its estimated expansion of 7.2 million tons of cereals, has made provision for only 14.50 ounces per adult per day at the end of 1956. In the case of cotton also it will be seen, that, though there is a considerable difference in the targets of the Plans, the per capita availability of cloth at the end of the planning period works out to be the same.

formation, the scope for an increase in investment becomes highly circumscribed. The Planning Commission has estimated an annual rate of gross investment of Rs. 360 crores. As pointed out earlier, this works out to about 4 per cent. of our national income. It is usual to criticise the Planning Commission for accepting such a meagre rate of investment. People like to point out the example of countries like the U.S.S.R. and Japan where the rate of investment was stepped up to 10 to 15 per cent. of the national income. Naturally those who are very enthusiastic about a rapid development of our country ask the question as to why a similar effort cannot be undertaken in India.

In this connection, it may be pointed out that the potential capacity of a country to augment the rate of investment need not necessarily have a mechanical relationship with the country's national income. Just merely because India's national income is Rs. 9,000 crores, it dos not follow that the rate of investment can be stepped up to an annual average of about Rs. 900 crores. The factors that determine the country's potentialities in regard to investment are, the distribution of incomes, the saving capacity of the community, its willingness to undergo a programme of austerity, the potential extent to which the programme of austerity can be extended, the rate of growth of population, the country's capacity to augment the supplies of basic resources that are necesary for the carrying out of investment programmes, etc. To take the most important elment in the situation, so long as the supplies of capital equipment, skilled labour, basic and raw materials etc. are limited to their present capacity, and so long as there are definite limitations for increasing the rate of supply of these resources, a mere increase in investment outlay will not lead to a net increase in real investment.

Consumption and Investment Competitive : In this context, the Five-year Plan poses before the country the crucial problem as to whether the rate of investment

envisaged in the programme is commensurate with the ability of the community to suply resources necessary for the various investments. It has become fashionable to suggest increased investment both in the private and in the public sector, the assumption being that an increase in the rate of investment can be sustained. Taking the community's resources and the rate of flow of increase in various materials, there can be only one given rate of investment which can be sustained. The mere desire to have a larger rate of investment would only lead to increased monetary outlay, and on account of the inelasticity in the supply of resources, would lead to an increase in the price level. When a community has a limited capacity to produce materials, as well as to procure equipment and technical personnel, an increase in the rate of investment beyond a point will have to be counterbalanced by a decrease in the quantity of resources available for consumption. Under the existing conditions in the country, consumption and investment generally make a competitive demand on limited resources.[1] Given the conditions in respect of the flow of resources necessary for the construction of various projects as well as industrial plants, if we merely increase the rate of monetary outlay, what will happen is that as the supply of resources is given and limited, prices will go up and some projects will have to be excluded or their pace will slow down or they may be only partially completed. This important consideration must be borne in mind when we argue for an augmentation of the rate of investment in our country and also when we call upon the private sector to increase the pace of investment.

Implications of Increased Outlay : What is happening in the country is, that, while the supply of basic resources

1. Strictly speaking it may be inaccurate to think that consumption and investment are alternative avenues for resources. In some cases, even if the resources are not utilised for direct or indirect consumption purposes, it does not follow that they will become immediately available for utilisation in capital projects. In other words some resources are specific. They can be utilised only for certain purposes and it will not be possible to divert them for other uses.

continues to be relatively inelastic, both the Government as well as the private sector have increased the monetary outlay on investment. To a large extent, the resources for investment have not come from current savings as such. The Central Government, for example, has been constantly utilising the balances which it had accumulated during the War and the post-War period. The State Governments have also been continuously drawing upon their accumulated resources and cash balances. In this respect, the Government, therefore, have been drawing upon past savings. But so long as the supply of real resources is given, an increased monetary outlay, whatever be the source of finance, is bound to affect the prive level. The mere fact of an increase in the availability of financial resources for the Government, on account of its ability to draw upon balances accumulated in the past, does not in any sense connote that the corresponding supply position in respect of resources has increased. In a similar manner, in the private sector also, we have been witnessing expansion financed by the withdrawal of balances accumulated in the War and the post-War period. In the private sector, there has been a dangerous tendency inasmuch as a part of such balances have been utilised for purposes of speculation instead of investment. The cumulative result of these tendencies has been, that during the last few years the rate of monetary outlay has tended to increase, only part of the origin of the outlay being attributable to current saving. Corresponding to the large burst of financial outlay on investment, we have not witnessed expansion either in the industrial sector or in the agricultural sector. No wonder that powerful pressures are operating to keep the price level high. The defects of the above policy have been glaringly revealed in respect of the projects of the public sector. It has been constantly found that, whatever ambitious schemes the government might have launched, the limited availability of real resources can only warrant the continuance of a restricted number of such schemes. It would be a fruitful source of inquiry for the Planning Commission to ascertain

the extent of expansion that has been checked both in the public and the private sector on account of limitations of real resources.

Limitations for Real Investment: Under the background conditions that we are facing in the country at present, there are definite limitations for augmenting the rate of net real investment. There are also definite limitations in the way of increasing the savings of the community. While increased savings need not automatically lead to an increase in the rate of investment, they would, on the other hand, exercise a powerful downward influence on the price level. A curtailment in the rate of monetary investment programmes to that particular amount which is in consonance with the rate of supply of resources will thus act as a powerful check on the price level. From these points of view, the appropriate monetary policy before the community may have to aim at reducing the pressure of monetary outlay on limited resources, utilised either for the purchase of consumer goods or for materials necessary for investment.

Significance for Economic Policy: From the point of view of the country, the mere figures in respect of monetary outlay do not connote any corresponding expansion in real investment. We suggest that the Reserve Bank as well as the Planning Commission should work out the volume of investment that can be continuously sustained under the conditions of our country. If it is found that we have been embarking upon a larger rate of monetary investment than that warranted by the rate of flow of real resources, our entire economic policy may have to undergo radical changes. We have been following a system of incentives with the objective of giving maximum scope for investment operations. It has been a common tendency in India both among Government as well as private sections to argue that the rate of direct taxation in India is already high and is having disincentive effects

on capital formation. If it is found, that, what is necessary from the point of view of the country is not an expansion in the rate of monetary investment, but the sustenance of a given tempo of investment, and if determined efforts have to be made in order to complete the various projects of the Plan, consistent with the supply of resources, a taxation policy which increases the scope of direct taxation may not be necessarily against the interests of the country. It is in this respect also that the monetary policy of the Reserve Bank may have to undergo certain important alterations.

Concentration of Resources on limited Number of Projects Advisable: The issue that has been discussed above is crucial from the point of view of any plan that may be formulated for the country. If we are in a position to know the exact rate of flow of resources necessary for the undertaking or completion of the schemes formulated in the public as well as the private sectors, it may be found that we may have to pick and choose from among the projects to be undertaken. It would definitely be not in the interests of the country to embark upon a number of ventures and enterprises, for the completion of which we are not in a position to guarantee adequate supplies of resources. It would be prudent for the country to undertake only that particular volume of investment and that particular pattern of investment that can be sustained by the aid of resources that are likely to become available. In the absence of such knowledge, what will happen is that either the price level will be affected adversely or if the control system is efficient, a number of projects either in the public or in the private sectors will be slowed down or given up at a later stage. To the extent that these things happen, as have been happening already in India, the resources already spent would be dead waste. It is better to continue with a given number of limited projects with the aid of the resources that become available and to complete them in a defined period than to scatter resources

on an unlimited number of projects most of which could only be partially completed within the same period of time. It is only with the lapse of time that the difficulties in the way of the sustenance of an unlimited number of projects becomes obvious. When the country realises the need to concentrate resources on a limited number of projects, obviously, several schemes, on which some resources had been already spent, will have to be either given up or slowed down. In either case, it becomes clear *ex post* that a greater degree of progress could have been achieved if the community had adjusted the rate of investment in accordance with the rate of supply of resources which would be available for investment during the planning period. If this policy had been followed from the initial stage itself, the wastage of resources on the partially completed projects could have been avoided and they could have been utilised on other schemes whose progress would have been consequently greater. In India there are special reasons as to why the tendency indicated above will tend to operate. On account of increasing population and the consequent pressure on resources for utilisation in consumption, the community faces the prospect of a shrinkage in the volume of the investment. The Five-year Plan itself has made very little effort to utilise the resources on projects which help to build the technological base of the community.

Conclusion: Whatever be the fond wishes of planners in the country, the circumstances of the country are such we cannot think in terms of sustaining an immedite increase in the pace of investment. It will be no wonder if in the period of the Five-year Plan, which is more or less a finance plan, shortages develop both in the public as well as in the private sector and the pace of completion of a number of projects is retarded. It is unfortunate that this crucial problem has not received any attention at all from responsible sections in the community. This is so on account of the undue concentration that has been placed on monetary factors as against real factors. Money in the broadest

sense connotes purchasing power to buy resources. But so long as the flow of goods and services and materials is inelastic and does not easily respond to the incentive of monetary payment, concentration on financial aspects of planning to the exclusion of what happens to resources would lead to a dangerous policy of too much with too little leading perhaps to negative results at a later stage.

V. FINANCIAL ASPECTS: INTERNAL

A. Internal Financial Resources

Total Internal Resources Estimated: The Five-year Plan is essentially a finance Plan. The various projects included in the first part of the Plan are based on the assumption that resources to the extent of Rs. 1,493 crores will become available. In order to understand whether the objectives and targets included in the Plan can be achieved, we have to examine in detail whether the estimated resources would become available over the period.

The Commission has estimated that Rs. 1,121 crores would be raised internally. Out of this, the Central Government would be responsible for raising Rs. 641 crores and the State Governments for Rs. 480 crores. Table 10 (p. 60) shows the breakdown of the various sources from which the funds would be available.

The Plan thus estimates that on an average Rs. 224 crores a year would become available for development purposes. The total estimate of Rs. 1,121 crores includes in the case of the Central Government the amount that has been already provided for various development purposes in the Revenue Account. This amount of Rs. 118 crores

comprises the following items: expansion of civil aviation, broadcasting, education, scientific research, medical and public health services, resettlement, etc., Rs. 55 crores; grants to States for Grow More Food and Development expenditure, Rs. 40 crores; food bonuses to States Rs. 8 crores; and rehabilitation of displaced persons, Rs. 15 crores. In the case of the State Governments the Plan makes provision for a surplus of Rs. 81 crores on Revenue Account, and for Rs. 275 crores comprising of resources normally set apart in the Revenue Account for schemes of expansion under social services, agriculture, irrigation, electricity, etc. A part of the provision for the schemes of the latter categories has to come from additional taxation. The surplus of Rs. 81 crores assumed in the case of the State Governments is to accrue after additional taxation has yielded Rs. 132 crores for these schemes of expansion.

Assumptions underlying the Estimates: The Commission's estimates are based on the following assumptions:—

(a) The Central Government will try to maintain a revenue surplus of Rs. 26 crores per annum;

(b) Resources of the order of Rs. 213 crores will be available to the States over the 5 years through additional taxation and economies;

(c) Long-term borrowing from the public will provide Rs. 115 crores to the Central and the State Governments together during the period, and small savings and unfunded debts will contribute another Rs. 250 crores to the Centre;

(d) Expenditure of non-developmental nature (defence, administration, etc.) will not rise significantly, and economies will be effected wherever possible.

Central Revenue Surpluses: The assumption that the Central Government would be in a position to maintain

TABLE 10

Internal Resources Available for the First Part of the Plan

(Rupees crores)

	Centre		States		Total	
	1951-56	Annual Average	1951-56	Annual Average	1951-56	Annual Average
1. Surplus on Revenue Account ...	130	26	81	16	211	42
2. Resources normally set apart for expansion of development schemes...	118	24	275	55	393	79
3. Resources available from Capital Account	580	116	124	25	704	141
(a) Net long-term loans	35	7	79	16	114	23
(b) Small savings and Unfunded Debt	250	50	—	—	250	50
c) Repayment of Loans by various Governments	97	19	—	—	97	19
(d) Resources from Railway Funds ...	90	18	—	—	90	18
(e) Miscellaneous Funds, Receipts and Deposits	108	22	45	9	153	31
Less Non-development expenditure on Capital Account	217	44	—	—	—	—
Net Resources Available from Capital Account for Development ...	363	73	124	25	487	97
4. Resources available from ordinary revenues of Railways	30	6	—	—	30	6
5. Total Resources available for Development Assistance to States ...	641	128	480	96	1,121	224
6. Resources available for Development Expenditure of Centre	431	86	—	—	—	—
7. Resources available for Development Expenditure of States	—	—	691	138	—	—

a revenue surplus of Rs. 130 crores over the period or of Rs. 26 crores per annum, is based on the expectation that the same financial conditions as were assumed for the budget of 1951-52 would continue over the period. Table 11 gives an idea of the finances of the Government of India during the last few years.

TABLE 11

Finances of the Government of India for the Years 1949-52

(*Rupees crores*)

	1949-50 Account	1950-51 Revised	1951-52[1] Budget
TOTAL REVENUE	350.59	387.21	481.80[1]
Customs	124.71	145.31	156.04
Excise Duties	67.85	69.68	79.82
Corporation Tax	39.53	38.92	32.73
Taxes on Income*	121.59	127.88	132.22
Currency and Mint	11.22	12.87	12.32
Railways	7.00	6.76	7.26
Posts and Telegraphs	2.38	3.07	2.33
TOTAL EXPENDITURE MET FROM REVENUE ...	317.12	379.28	375.79
Administration	39.30	52.75	54.29
Defence	148.86	170.47	180.02
SURPLUS	33.27	7.93	26.10

* Including States' share of Income-tax.

1. Supplementary demands amounting to about Rs. 29 crores were recently sanctioned by the Parliament. These demands included: Rs. 15 crores on account of food subsidies; Rs. 4 crores for displaced persons; Rs. 2 crores on Posts and Telegraphs; Rs. 2.5 crores as grant-in-aid to States. In spite of these additional expenditure commitments it is expected that there will be a large surplus on revenue account at the end of the year. This is on account of the extremely favourable circumstances in regard to Customs revenues. It has been disclosed that during the five months ending August the Costoms collections exceeded the budget estimates by about Rs. 40 crores, import duties registering an increase of Rs. 13 crores and export duties Rs. 28 crores. The jute export duty alone accounted for Rs. 22 crores of the latter amount.

Under the assumption that there would be no increase in the heads of expenditure, it is possible to forecast that a revenue surplus of Rs. 26 crores as estimated for the budget year 1951-52 would continue to be available during the entire period. This means that the existing rate of collections in respect of the various taxes must also continue. A favourable shift to Central revenues has arisen during the last two years by an increase in the customs collections.[1] This has been due to the levy of export duties on several commodities particularly on jute. We cannot assume that the favourable demand for some of our commodities would continue over the entire planning period. The intensive stock-piling policy followed by the United States, more than any other reason, has been responsible for these collections. When the stock-piling race slackens, it will not become possible to maintain the export duties at the present high level. It has been reported that heavy export duties in respect of jute goods are encouraging the expansion of the jute loom capacity of several of our competitors. From the long-term point of view of maintaining a stable demand for our jute products, any unfavourable change in the external situation might necessitate the scaling down of these duties. It is not unlikely, therefore, that the actual tax collections during the coming years might be less than the estimates given in the Plan. The Commission has not made provision for any increase in direct taxation. It has pointed out that the steepness of direct taxation in India is equal to that in many foreign countries, and is already acting as a disincentive for risk-bearing and effort. Heavy direct taxation is also encouraging tax evasion. We

1. There has been a spectacular increase in the revenue from jute export duties. In 1948-49 Rs. 6.3 crores were collected whereas in 1949-50 this increased to Rs. 8.8 crores and in 1950-51 it went up to Rs. 23.9 crores. The amount collected in export duties has increased by over 376 per cent. The exports of jute manufactures have been on the decline since 1948-49. In 1948-49 India exported 929,000 tons of goods, in 1949-50, 797,000 tons and in 1950-51 650,000 tons. Thus there has been a decline of over 30 per cent. during the course of the last two years. The fall in the value of the exports on the other hand has been only 22 per cent.

cannot therefore think in terms of higher direct taxation. We may have to fall back upon certain alterations in excise duties. In this connection, we may suggest that the salt duty which was a useful source of revenue may be revised again. In view of the objections to a Salt Duty, the alternative of a salt monopoly by the State should be adopted. It should be possible to obtain a revenue of about Rs. 9 crores a year or about Rs. 40 crores taking the planning period as a whole, if a salt monopoly is instituted.

On the whole, the estimate that a revenue surplus of Rs. 26 crores per annum would become available to the Central Government appears to be based on reasonable expectations. But it would be safe to make a provision for certain alternative taxes if the favourable factors do not operate. The expectation may be falsified, if the level expenditure goes up though the revenue collections continue at the same level. In this case also, if the development projects are to be continued, resort to additional taxation may become necessary.

Revenue Surpluses in States : While the estimates in respect of the Central Government are perhaps plausible, the figures in respect of the State Governments appear to be based on certain doubtful assumptions. It is estimated that the State Governments would be in a position to procure for themselves additional resources of Rs. 213 crores by taxation. The Commission argues that this would become possible through higher income from land, estate duties, wider coverage and better administration of sales tax, betterment levies and water rates, certain minor taxes on entertainment, motor vehicles, etc., economies in expenditure, and through local loans for local projects. The following table gives an idea of the financial position of the States during the years 1950-51 and 1951-52:—

TABLE 12

Financial Position in Part 'A' and Part 'B' States

(Rupees crores)

	1950-51		1951-52	
	Part A	Part B	Part A	Part B
TOTAL REVENUE	292	79	295	81
Share of Income-tax ...	47	1	45	1
Agricultural Income-tax ...	3	—	3	—
Sales-tax	49	4	44	5
Land Revenue	32	13	40	13
Excise	25	18	25	17
Stamps	18	2	19	2
TOTAL EXPENDITURE ON REVENUE ACCOUNT ...	298	79	310	82
SURPLUS OR DEFICIT (—)	—6	—	—15	—1

The figures for Part 'C' States are not available. From the table, it is seen that the Part 'A' and Part 'B' States together had a moderate deficit of Rs. 6 crores in 1950-51 (Revised) and are expected to have deficit of Rs. 16 crores in 1951-52. The Commission hopes that the State Governments would be having a surplus of about Rs. 16 crores per annum after meeting the additional expenditure commitments on revenue account, that have been included in the Plan for expenditure under Social Services, Agriculture, Irrigation, Electricity, Roads, etc. The Commission estimates that reorganisation of the taxation structure and introduction of new taxation will have to provide in the aggregate Rs. 213 crores *i.e.* about Rs. 43 crores per annum. In respect of the States, it is obvious that past trends are not expected to be a guide for judging the validity of the estimates regarding the future. The tax provisions and alterations can become effective only from the budget year 1952-53. The Commission has arrived

at these optimistic calculations after a study of the existing disparities in different States in repect of the various forms of taxation. There is considerable scope for sales taxes in Part 'B' and Part 'C' States. It is expected that the reorganisation of the sales taxes in Part 'A' States also would yield certain additional revenue. The Commission assumes that the agricultural sector has been better off to some extent on account of the improvement in the terms of trade in favour of agricultural commodities. That is why it makes allowance for certain improvements in land revenue. It also expects that the legislation regarding estate duties will be introduced soon.[1]

With the available statistical data, it is difficult to foresee the possible amounts of increment to revenue on account of the introduction of estate duties. It must, however, be clearly understood that any deficiency in the estimates regarding the State Governments will materially affect the working of the Plan. We feel that there is a source of weakness judged purely from past standards, in the case of the estimates regarding the expected surplus accruing to State Governments. It is in this context that the question regarding the reintroduction of 'excise' in some States attains a great importance. On account of the policy of prohibition followed in States like Bombay and Madras, there has been a diminu-

1. The Madras Government introduced in the legislature the following measures to finance the Plan: (1) levy surcharge on agriculturists paying an assessment of over Rs. 150, (2) enhancement of land revenue on lands producing commercial crops, (3) betterment levy on lands benefited by irrigation works which were completed after January 1943 or which may be completed hereafter and (4) a resolution authorising the Central Government to pass legislation for the levy of estate duties on agricultural property. But on account of the serious opposition encountered in the Assembly the Government gave up the proposal to levy a surcharge on land revenue and excluded groundnuts and cotton from the purview of taxation of commercial crops. In respect of the proposal for estate duties, the Government decided not to pursue the matter for the present. Thus it is seen that the prospects for new taxes do not appear to be bright in the State.

tion in the revenue of the State Governments in respect of receipts from excise to the extent of about Rs. 25 crores. The total receipts from excise in all the Part 'A' States amounted to Rs. 52 crores in 1945-46, whereas it amounts to Rs. 25 crores in 1951-52 (Budget estimate); in Madras, the receipts amounted to Rs. 17 crores in 1945-46 and in 1951-52 (Budget estimate) it amounts to less than Re. 1 crore; in Bombay the receipts amounted to Rs. 9 crores in 1945-46 and amount to Re. 1 crore in 1951-52 (Budget estimate). It is obvious that a change in the prohibition policy in both these States would result in augmenting financial resources to the extent of at least Rs. 100 crores during the period 1952-53 to 1955-56. This is an underestimate, for we have to include the saving in the administrative expenditure now being incurred to check illicit distillation and smuggling. It is true that both Bombay and Madras are financially well placed, so that their existing schemes can proceed apace, even without the need for such additional revenue. But taking the entire country as a whole, the total resources at the command of the authorities would be augmented if the State excises are imposed again in these States. The two State Governments can themselves undertake additional deveolpment programmes, for which there is plenty of scope.

Prospects for Borrowing Programmes: Regarding the expected collections by way of borrowing considerable doubts may be entertained. The Planning Commission expects that both the Central and the State Governments would be in a position to borow from the market a sum of Rs. 35 crores and Rs. 77 crores respectively, the annual rate of borrowing amounting to Rs. 7 crores and Rs. 16 crores respectively. If we take the actual figures during the last five years, (1946-47 to 1950-51) in the case of the Central Government, we find from table 13 that the long-term public borrowing amounts to a negative amount of Rs. 59.

TABLE 13

Government of India's Loan Programme, 1946-51

(Rupees crores)

Year	Target for borrowing	Loans Floated	Net public Borrowing
1946-47	250	375	41
1947-48	150	41	—15
1948-49	150	55	—42
1949-50	85	40	—26
1950-51*	75	30	—17
Total	710	541	—59

* Excluding receipts from the sale of securities worth Rs. 23 crores from the Cash Balances investment account.

The target for borrowing during 1951-52 amounts to Rs. 100 crores. We cannot say at present as to what the exact position in respect of borrowing would be during this year. The Commission estimates that the Central Government would be in a position to borrow Rs. 7 crores net from the market per annum. On the assumption that conditions in the capital market will improve, this does not appear to be an unreasonable estimate.[1]

But we have to take the entire position of both the Central and the State Governments together, when we discuss the feasibility of the assumption regarding the availability of resources by borrowing. The Commission expects that the

1. There was a full response to the Government of India's 3 per cent. 1958 Cash-cum-Conversion Loan for Rs. 50 crores floated in August. The subscriptions amounted to Rs. 50.30 crores, of which Rs. 12.7 crores were in cash and Rs. 37.52 crores by conversion. Inasmuch as the loan offered was higher than in any previous year since 1947, and as the cash applications denoted an increase over that in 1950 by about Rs. 5 crores, there is considerable reason to hope that the modest borrowing programme of the Central Government may be actually fulfilled during the period of the Plan.

States would be in a position to borrow at the rate of Rs. 16 crores per annum. The actual figures in respect of the borrowing from the market on behalf of the Part 'A' States are given in the following table :—

TABLE 14

Market Borrowings of Part 'A' States

(Rupees crores)

1948-49	2.0 (Madhya Pradesh)
194-50	16.0 (Bombay)
1950-51 (Revised)	8.4 (Madras 4.4 ; Bombay 3.0; Madhya Pradesh 1.0)
1951-52 (Budget)	6.0 (Bengal 2.0 ; Uttar Pradesh 4.0).

It we take into account the figures of receipts in respect of long-term borrowing of Part 'A' States, we find that they were able to get about Rs. 8 crores from the market in 1950-51 and are expected to get Rs. 5.4 crores in 1951-52.[1] This compares very poorly with the estimated target of Rs. 16 crores per annum of the Planning Commission. The prospects of long-term borrowing do not appear to be bright for Part 'B' States also.

Both Part 'A' and Part 'B' States may be forced to draw upon cash balances or acquire resources by means of sales of securities in the cash balances investment account. It we take the figures regarding Part 'B' States, we find that

1. The following are the details regarding the various loans recently floated. The Governments of West Bengal and Bombay issued loans of Rs. 1.75 crores and Rs. 3.0 crores at par respectively, whilst Madras (Rs. 3 crores), U.P. (Rs. 2 crores), and Madhya Pradesh (Rs. 1.0 crore) floated the loans at Rs. 99-12-0, Rs. 99-8-0, Rs. 99-8-0, respectively. All these loans carried interest at 3.5 per cent. It may be noted that this makes a departure from the usual 3 per cent. interest policy.

there was a depletion of about Re. 1 crore in 1950-51 in cash balances, whereas the depletion is expected to amount to Rs. 6.3 crores in the budget year 1951-52, the disinvestment in cash balance investment account being Rs. 9 crores in 1950-51 and expected to be Rs. 2.3 crores in 1951-52. Thus the total dishoarding and disinvestment of both Part 'A' and Part 'B' States have amounted to Rs. 35 crores in 1950-51, and are expected to amount to Rs. 52 crores in 1951-52. These figures clearly show that the States might have to incur additional dishoarding and disinvestment, if the estimated revenue surpluses do not accrue and the targets in respect of borrowing are not reached.

Small Savings and Unfunded Debt: The Commission assumes that small savings and unfunded debt will contribute a sum of Rs. 250 crores over the period or Rs. 50 crores per year. The maximum contribution in respect of small savings was in 1946-47 when an amount of Rs. 46 crores was available. But that was during the period when India was not divided. The partition, by altering the fortunes of the people formerly living in West Punjab and Sind, has created a serious gap in respect of the country's ability to lend by way of small savings. Undivided Punjab was formerly one of the leading sources of small savings. Table 15 indicates the collections in this respect according to different sources. It is possible to improve the response from the small investor provided suitable organisational methods are introduced. It must, however, be remembered that an increased response to the small savings programme should not be at the cost of the funds available for long-term loans. Different rates of incentives should be applied in such a way that there is a net increment to Government receipts by way of borrowing ; not just a shift. On the whole it is reasonable to expect that the Commission's targets would be realised in this field.

TABLE 15

Small Savings and Unfunded Debt

(Rupees lakhs)

		Revised Budget	
	1949-50	1950-51	1951-52
Deposits of Service Funds	—25	—9	—9
Post Office Savings Bank Deposits ...	15,18	13,73	18,65
Defence Savings Bank Deposits	—39	—17	—12
Post Office Cash Certificates	—3,87	—4,10	—3,80
Defence Savings Certificates	—27	—75	—87
National Savings Certificates	15,53	17,22	17,00
State Provident Funds	4,52	6,96	8,35
Other Accounts	—2	3	4
Ten Year Treasury Savings Deposits ...	—	5,48	12,00
Net Collections	30,43	38,31	51,16

Expenditure on Defence and Administration : The estimate of resources available for development expenditure can be seriously upset, if the Government's commitments in respect of non-development expenditure increases. In non-development expenditure, we include expenditure on account of defence and administration. Under the present international tension and particularly the expolsive situtation in respect of Indo-Pakistan relations, it would perhaps be incorrect to assume that the defence expenditure might not increase. If the external situation continues as it is, the expenditure in respect of non-development items might have to increase. This will not only mean a diminution in resources available for developmental purposes, but may also affect the price level as resources utilised for defence generally imply a curtailed supply of goods and services available for

civilian consumption. High defence expenditure can itself stimulate inflationary pressures. In respect of administration also, as we shall see later, if the Commission's various projects and measure have to be implemented effectively, certain reorganisations in the administrative machinery may become necessary. This might mean that expenditure in respect of administration might also increase. The Commission's suggestion that economies would be affected wherever possible is based on optimistic calculations, for the results of the attempts of the present governments to introduce economies in various departments clearly indicate that the scope for saving on account of economies is limited. Further, the so-called economy drive, apart from the meagre results which it achieves, if pursued indiscriminately, might result in curtailing expenditure where it is relatively more necessary.

Conclusion : To sum up, while the Commission's estimates have a reasonable chance of being fulfilled in the case of the Centre, they appear to lean heavily on the side of optimism in the case of the States. The experience of Madras in its efforts to levy new taxes is a pointer in this direction. It is also difficult for the States to keep up the borrowing targets. To the extent that the resources are not available, the Central Government may have to resort to internal deficit financing or the Governments may be forced to curtail the schemes. If the price level is not held in check, the cost estimates for the schemes will go up and the Plan will have to be considerably pruned.

B. Deficit Financing in the Plan

Utilisation of Sterling Balances : The total internal resources available on the basis of the various assumptions regarding taxation and borrowing would amonut to Rs. 1,121 crores. There would still be a gap of Rs. 372 crores for the total commitments in respect of the projects and schemes included in the Plan. The Commission expects to fill this gap

by utilising the counterpart funds available by the sale of the food loan received from the United States, and of food and consumer goods to be supplied by Canada and Australia. These are estimated to amount to Rs. 82 crores. This would leave a gap of Rs. 290 crores. It is hoped to obtain additional foreign assistance to make up this gap, but the Planning Commission has suggested that if foreign assistance to this extent is not available, the Government should resort to deficit financing rather than give up the implementation of a certain part of the development programme. In the first place, we must remember that the first part of the Plan consists more or less of schemes which are already in progress. The total amount of Rs. 1,493 crores is the minimum amount which is absolutely essential if the various objectives are to be attained. Deficit financing is bound to impose certain additional strains upon the economy which is already bearing the impact of heavy inflationary pressures. The Commission has faced the country with the choice of the possibility of deficit financing and the aggravation of the present strain on the economy or the reduction in the tempo of development. "The problem here is one of choosing between relieving immediate tension and avoiding what might turn out to be a more serious situation in the future. This is a difficult position, but on a consideration of all aspects of the problem, we recommend that the choice be made in favour of development." The Commission therefore suggests that the Government should go ahead with the different schemes even though they involve a deficit to the extent of Rs. 290 crores. It must be noted that the major portion of the amount of deficit financing would represent expenditure by the various Governments on imports of equipment and stores. The total value of sterling balances held abroad to the credit of the Reserve Bank of India amounts to about Rs. 880 crores. The rate of the annual withdrawal of the sterling balances is governed by agreement with the Government of the United Kingdom. India has already certain accumulated sterling to her credit which she could have withdrawn but did not. The total

amount of sterling that could be withdrawn between the period 1951-52 and 1955-56 amounts to Rs. 290 crores.[1] The Commission's argument is that the impact of the deficit financing would not be felt within the country, because we would be compensated by the imports of capital equipment and stores necessary for the governmental projects by an equal amount, drawn from the sterling balances.

Orthodox Views: Orthodox theorists who would strictly stick to the principle of surplus budgets during a period of inflationary pressures might argue that the Government, instead of resorting to deficit financing, should obtain the necessary resources internaly to counterbalance the payment for additional imports. But whatever the theoretical appropriateness of the argument, anyone who is acquainted with the practical difficulties of increasing such resources either by means of additional taxation or borrowing, will appreciate that it would be difficult, if not impossible, to acquire the resources internally. Moreover, strictly speaking, the sterling balances represent the forced savings of the community accumulated during the War period on account of the policy of inflation that was followed by the Government of India. From the overall point of view what would happen if these balances are utilised would be that there would be a certain depletion in the foreign assets of the country. To the extent that the impact of deficit financing is not felt in the country, there would therefore be no additional inflationary presures generated in the economy. Internally, there may be a depletion of the cash balances of the Government or the creation of *ad hoc* securities. The crucial assumption in the entire argument is that there would be no balance of payments deficits in the current account during the period on normal trade transactions. The problem that is also relevant here is whether it is wise on the part of the community to utilise the sterling balances for purposes of

1. According to a recent announcement by the Finance Minister the total amount that can be withdrawn during the five years has been increased to Rs. 335 crores. *Vide* foot note on page 91.

imports of equipment etc., rather than to concentrate on increasing the foreign trade surplus of the country.

Possibility of unfavourable Events: It is difficult to visualise the nature of the position during the period of the Five-year Plan. It is extremely difficult to foresee the possible nature of price trends during this period. Any effort to work the industries to full capacity would lead to additional foreign exchange commitments. If the cotton industry is to work to its full capacity the supplies of raw cotton must show a significant improvement; so also in respect of the jute textile industry. Besides, the raw material and the mineral requirements of a number of small industries that have developed also necessitiates an increase in import commitments. It must be remembered that a considerable part of our export capacity is dependent upon our ability to import the necessary raw materials. If more of cotton and jute are to be grown in the country then less of food can be grown and the import commitments in respect of cereals will increase. It would be incorrect to pursue planning on the basis of the assumption that the extremely favourable terms of trade for our export commodities that ruled in 1950-51 would continue undisturbed over the entire period.[1]

The Commission's argument that in the absence of foreign assistance, the first part of the Plan could be proceeded with by the utilisation of the sterling balances is based on the assumption that they would not be required for the covering of deficits on normal trade account. What will happen if the period does witness serious deficits in our balance of payments? Can the Plan be still continued by resort to internal deficit financing?

In this connection, it must be noted that the sterling balances are expected to meet the foreign exchange expenditure for the purchase of capital equipment and stores

1. *Vide* Section VI for detailed discussion of these issues.

necessary for the projects included in the Plan. Internal deficit financing cannot help in the provision of foreign exchange. Unless therefore the Government thinks in terms of drastic controls over imports and internal consumption, the Plan cannot be completed at all. It would be good for the country if the foreign trade situation continues to be favourable during the entire period and the sterling balances are available for the projects in the Plan. But optimism should not lead to complacency. A Government which plans ahead must be prepared for the possibility of unfavourable and unexpected events.

C. Methods of Augmenting Financial Resources

Introduction: We have discussed earlier the assumptions of the Commission regarding the supply of internal resources. The important issue in this connection is the nature and width of the gap that exists between the potential capacity of the community to transfer resources to the Government without serious effects on production and incentives, and the actual capacity of the Government to mobilise the same. There are various methods by which a modern Government can transfer resources from private individuals and authorities to itself. Among these methods we have to include taxation, borrowing and price alterations. The Government of India has been pursuing all these three methods. The Government has not hesitated to alter the rates charged by State enterprises such as for railway travel and for other communications facilities. We shall first discuss the ability of the Government to improve its resources by altering the tax structure.

1. Mobilisation of the Tax Potential

Survey of Tax Potential Needed: The financial resources of a Government by way of taxation might fall short of the taxable capacity of the community. If we accept the proposition that the functions of a modern government

go on increasing, we have also to accept the corollary that a wise government should not exhaust the tax springs in a community. It is in this context that a survey of the total tax potential in India, with special reference to the alteration in the structure of tax levels of Central, State and Local Governments so that Government revenues can be increased, without diminishing the productivity in the country, is urgently called for.

Implications of Changes in Distribution of Incomes: During the War and the post-War period we have witnessed radical changes in the distribution of incomes in India. It appears that the trading and speculative classes have been in a position to benefit most on account of the large monetary incomes that have accrued to them during the last few years, owing to the dishoarding of balances by private individuals and public authorities, the vacillating policy in respect of controls, and the existence of a piecemeal technique of controls leading to the continued shortage of goods and services, as well as to profiteering and large-scale diversion of resources to blackmarket activities. The tax system of the country was based on a certain distribution of incomes. Now that the distribution of incomes has undergone a radical change, if we continue to stick to the same system of taxation, it is quite possible that the total tax collection of the community might be inequitable and might fall short of expectations and needs. The Government during the last few years has been unwilling to increase rates of direct taxation, as it is well-known that those on higher incomes have reached a level equal to those of advanced countries like the United Kingdom. Increased reliance on direct taxation will, it is believed, come in the way of incentives to investment.

Need to Tax Speculative and Trading Groups: We have already discussed the issue whether the flow of resources going for private investment should be increased

in the existing conditions of the limitations in respect of resources. It is sufficient to point out here that apart from the issue whether higher direct taxation results in disincentives for risk-bearing and enterprise or not, it is true that our tax system has not succeeded in reaching those who are today responsible for much of the speculative and trading activity, which has stepped up the price level. Apart from the problem of tax evasion, the issue is whether the tax structure in India is the optimum one considering the altered circumstances in the country. The persons who have become relatively wealthier belong to a particular class, which is in possession of large monetary resources in liquid form, which are perhaps not amenable to control by the banking system. To the extent that large-scale monetary resources are allowed to have their effects on economic activity without regulation by Government in any form, it might happen that the normal productive system of the community might be repeatedly thrown out of gear, on account of sudden spurts in the price level. The groups who today possess large incomes might not be pursuing the same policy which real entrepreneurs would. Heavy pressure on the limited supplies of commodities might be created on account of their speculative activities. The increase in the bargaining capacity of this class has increased the scope for blackmarketing in the community. Under these circumstances, the proper tax policy should be that which is in a position to transfer resources from these groups towards the State In fact unless such transfer takes place, in the absence of radical monetary measures (not merely control of credit), the developmental programmes may be upset on account of such unexpected pressures exerted, in the shadow in the controlled section, and, in the open, in the uncontrolled sector. In this connection, we may suggest compulsory registration of all traders, merchants and middlemen and the levy of a lump sum tax proportionate to the value of the total turnover would be helpful in this respect. It must be seen that the tax is not shifted in the form of higher prices to the consumers. That is why preventive measures should be taken

along with the levy of the tax to see that the prices of commodities transacted by the dealer are not increased. The proposal merits further examination.

Need for Inquiry: It is appropriate for the Government therefore to appoint a Commission in order to go into the appropriate forms of taxation for an economy which wants to develop at a rapid pace in spite of continued inflationary pressures. The different taxes in India are having different effects on incentives for diffrent groups. Persons and concerns who are honest and who have been known to be wealthy during the earlier years are asked to bear the full brunt of taxation, while persons about whom no outward signs of wealth are visible, though they may have become relatively richer, are allowed to go free. During a period of inflation a transfer of incomes takes place from entrepreneurs to the trading class, which is numerous and dispersed all over the country. Appropriate tax measures should be devised to see that the new rich contribute their share to the Government for public and development expenditure.

Assumption behind Taxation of Agricultural Sector: We are stressing the need for a survey at this juncture because the Planning Commission also recommends that certain new taxes should be introduced by the States. For example, the Planning Commission assumes that certain sections of the agricultural sector have been better off on account of the improvement in the terms of trade in favour of agricultural commodities. Without entering into the issue whether the agriculturists have been better off in the War and the post-War period or not, and without entering into a comparison between the relative changes in the price level of agricultural and industrial commodities, we have to point out that the estimates of the Planning Commission may go wrong, if in spite of the increase in the prices of agricultural commodities, a large portion of such

increased incomes accrue to the middlemen, the traders and the intermediaries, and not to the farmers. Unless the situation is thoroughly examined in detail, we may have to repent for adopting measures based on assumptions which turn out to be incorrect.

Taxation and Incentives: Taxes imposed without due consideration of their effects on incentives and attitudes of the groups which are affected might create a situation wherein public enthusiasm for Government activity might wane. It is in this context that we stress the nature of the heavy burden that the middle class is bearing today in India. All the States have introduced sales taxes. The Central Government itself has increased railway fares and rates in respect of other communications facilities. It has also increased excise taxes on local production. Thus the total tax system of the entire country is shifting more and more towards indirect forms of taxation. Almost all these indirect taxes are regressive and place a very heavy burden on the fixed income groups. Some of the State Governments have given up excise revenues on liquor. They have thus foregone a possible opportunity by which they could have obtained certain contribution from the agriculural sector. It is the people in the cities and particularly the fixed income groups, who have to pay in the form of sales taxes and provide the revenue which has been foregone by some of the States. On account of the maintenance of the same rates of taxation in respect of the agricultural sector, the real value of the limited contribution which this section was making to Government finances has been considerably reduced by the fall in the value of the rupee.

Need for Granting Relief to Middle Classes: It may be that the fixed income groups have not complained much about their lot, because they are not organised. But no Government can be complacent about the deterioration in the lot of a class which has all along been making significant contributions towards social welfare. It is the middle

class which perfoms the function of leadership on account of the high level of education that its members have obtained. The technical and other personnel required for progress must also come from this class. On account of the increase in the price level and on account of the Government's unwillingness to offer any incentives either by public expenditure or by way of tax relief to this class, the social contribution from the fixed income groups has been rapidly diminishing. In a community wherein the majority of the members are illiterate, and not in a position to make a significant personal contribution towards the carrying out of the various objectives, in even such a modest Plan as that of the Planning Commission's, the major share of the burden of the implementation, and its quality will rest upon the attitude taken by the members of the middle class regarding the development activities. It is well-known that under the present circumstances there is a great amount of frustration amongst the members of this class, which is not healthy in the interests of the community. The Planning Commission has laid a great stress on the provision of voluntary leadership and non-official effort. We might reasonably ask about the sources from which personnel for the various forms of social work are to be drawn and the incentives to be offered to such personnel. It is in this context that a revision of the nature of the incentives effered to the different groups, and the awarding of adequate weightage in favour of the middle class would go a long way in creating a suitable atmosphere for the working of the Plan. The Government has all along concentrated on providing incentives for the industrial labourers as well as the agriculturist. It is true that from the point of view of winning the elections the agriculturists and the industrial labourers form the major section of the population. But after all, should not a community look beyond the immediate objective of winning the elections and think in terms of the provision of an increasing flow of enthusiastic and highly talented personnel for the efficient carrying out of the existing as well as the new responsibilities of a developing economy ?

Steps to see that this class receive its due are in the interests of the country as a whole. For, all revolutionary movements in all countries have their germ in the growing discontent and the continued frustration of the educated middle class. The potential danger to the peaceful progress of the country is many times greater than the apparently small number of the middle class might convey. For, instead of the constructive leadership for the Plan that this class can provide, its numbers may be driven to destructive leadership and succeed in winning to their fold the large masses of illiterate agricultural and industrial workers.

2. Mobilisation of the Savings Potential

Cheap Money Policy in India : The Planning Commission has not given due importance to the problem of the appropriate interest policy to be followed with a view to maximising the rate of mobilisation of the savings potential in the country. In this connection, without going into details regarding the merits or defects of following a policy of deliberate low interest rates in a backward community, we may point out the nature of the serious limitations for a cheap money policy. In the first place, in a community like ours, the scope of monetary policy is heavily circumscribed. The objective of a cheap money policy is generally that of cheapening the cost of public borrowing. This is brought about by following an expansionary monetary policy. When the supply of money in the community is increased, given the desire on the part of the individual to hold money, there is a natural tendency for the rate of interest to fall. When the interest rate falls, the margin for profitable investment is increased and the rate of private investment is also accelerated. In the case of India, as we shall point out presently, there have been serious limitations for an increase in private investment to take place. The pursuit of a cheap money policy therefore, enabled the Government to borrow at low rates of interest. As the response from the public for the Government loans at low rates gradually declined, the Gov-

erntment had to butress its loan programme by heavily drawing upon the support extended to it by the Reserve Bank. Had it not been for this support, even the limited 'success' of the Government's borowing programme could not have been possible. At the same time, for all purposes, the continuous support extended by the Reserve Bank led to the injection of large-scale purchasing power. It is in this sense that the Government's loan programme reflected only to a meagre extent the transfer of savings towards the Government. With the continuance of shortages and the heavy demand for funds for speculation rather than for investment on the one hand, and with the credit base expanded with the new purchasing power, the conditions were propitious for the utilisation of resources in speculation and hoarding. In consequence the cheap money policy did not help in increasing the rate of real investment, but contributed a powerful additional pressure to the rising price level.

Limitations of a Low Interest Policy : If the conditions of the community are such that there exists a large volume of unutilised productive capacity in the form of machinery, plants, raw materials as well as labour, or if the community has sufficient elasticity to produce within a short period of time the necessary supplies of different factors of production in response to increased monetary outlay, a cheap money policy by affecting the rate of interest and thus stimulating both public as well as private investment, would not lead to any significant increases in the price level. But if the community does not have sufficient capacity to produce immediately the needed factors of production in appropriate quantities, and if it has only an excess supply of one factor, namely, labour, an expansive monetary policy which increases the volume of money and thus tries to bring down the rate of interest, may not, in the first place, actually lead to a lowering of the rate of interest or, secondly, to a sufficient volume of private investment. Further, if the background conditions of the community are such that the supplies of real resources warrant only a limited volume of investment,

then a cheap money policy which increases the volume of public investment would definitely tend to be inflationary.

Fundamental Factors : The fundamental factors that should be remembered in these circumstances are: How far is the rate of interest responsive to changes in the quantities of money ? How far is the rate of investment responsive to the changes in the rate of interest ? And, how far is the rate of output responsive to the rate of investment ? If we find any snags in any of these respects it may not be advantageous to pursue a policy of low interest rates. Granted that there are excess resources which are available for private investment, an increase in the quantity of money brought about by an expansionary policy of the Central Bank, may not generally lead to a decline in the rate of interest on funds utilisable by private enterpreneurs. Long-term investment activity may not thus show any increase at all. The rate of interest is also not necessarily a very significant factor in promoting investment. The expansionary policy will only succeed in helping the Government to borrow larger amounts. Further, even if investment activity is stimulated, on account of the time lag necessary before output can flow to the market, the price level tends to be affected. In conditions when real resources are not available and when investment in goods is more profitable and less risky than investment in long-term projects, the expansionary policy gives a tremendous impetus to speculation and hoarding.

Consequences of Speculation : Speculation, under conditions of an inelastic productive base, will increase the pressure of shortages. If speculation is diverted towards commodities, the price level will soon be pushed up on account of tendencies for hoarding. The *raisson d'ettre* behind speculation is that the productive system is responsive to changes in price level. On the other hand, when shortages are an inherent characteristic of an economy, and when there is a time lag between investment and addi-

tion to production, speculation leads to the drying up of the supplies of commodities available on the market and thus leads to artificial shortages and causes the price level to be pushed up in the process. It must be accepted that the pursuit of a cheap money policy in post-War India has definitely encouraged speculative activities. Instead of diverting resources for investment this policy under conditions of easy availability of money has encouraged speculation.

Low Interest versus High Prices : Moreover, when the price level increases on account of the pursuit of a cheap money policy, the professed advantages of low interest rates for public borrowing are lost on account of the stimulus that the policy gives for price rises. To the extent that the prices of commodities go up as a result of cheap money policy, the Government will have to spend more for its investment projects. When the increases in the prices of these materials, which are a resultant of the cheap money policy, are compared with the slight advantages secured in respect of the cost of borrowing, it may be after all found that even from the point of view of the Government, a low interest rate policy under the background of inflationary conditions would not be advantageous on the whole.

Reasons for Failure of Public Borrowing : Many reasons have been given for the failure of the Government borrowing programme. It has been held that on account of the continuous increases in the price level the saving potential of the middle classes has suffered. It has also been pointed out that on account of the political changes that have taken place in the country, particularly the merger of Indian States, there has been a decrease in the demand for Government securities. It must also be noted that the War and the post-War period have resulted in a considerable transfer of incomes towards the trading classes. The Government has also been following a policy of redistributive taxation and this has resulted in diminishing the saving potential of the high income groups. But over and above

all these factors, it must be remembered that on account of the persistent increases in the price level, it may be also true that the rate of interest offered might not have been sufficiently attractive for investors. This is particularly so on account of the fruitful alternative opportunities that were available. A recent survey of the Reserve Bank has indicated that as much as 40 per cent. of the total Government securities is held by the Reserve Bank, the Commercial Banks and the State Governments. To some extent it may be said that the ability of these banks to borrow is due to the expansionary monetary policy. It is obvious that only a small proportion of the securities is held by private investors.[1]

Small Savings Campagn : Under these circumstances it has been asked whether the response to the loan programme of the Government could not be increased by means of certain manipulations in the rate of interest. In fact, the Government has been making serious efforts to popularise the small savings campaign. It has introduced the Ten Year Treasury Savings Deposit Certificates which carry interest at $3\frac{1}{2}$ per cent. and have been found attractive, particularly for the middle income groups. These deposits are not transferable and therefore do not offer any opportunity for speculative activities. Thus people who would be prepared to lend support to the small savings campaign are those who treat the rate of interest as an essential part of their income. In the case of securities which are transferable and which are dealt with on the stock exchange, the desire for making speculative gains is important. To the extent that certain manipulations can increase the response to the small savings campaign, the Government may even increase the rate of interest to a slight extent to induce a still better response.

1 According to a survey conducted by the Reserve Bank of India, private individuals, joint stock companies, trusts and other institutions held only Rs. 294 crores worth Government of India securities out of a total amount of Rs. 1,447 crores, or barely 20 per cent. of the total.

Mobilisation of Rural Savings: On the assumption that the rural sector has benefited due to the existence of favourable terms of trade for agricultural commodities, the Government has been intensifying efforts to mobilise rural savings. In so far as these efforts seek to inculcate the banking habit amongst the rural classes they deserve due commendation. But if the objective is to increase the volume of savings, we are afraid, the hopes may not be realised. From the point of view of mobilisation of savings what is relevant is the future trend in rural incomes. This means that unless the terms of trade continue to be in favour of the agriculturists the margin for savings will not be available. Moreover we have also to assume, that though the purchasing power of the rural classes has been strengthened, they have not increaed their consumption standards. In this case, unless the Government can induce the farmers to go back to their old standards there will be no disposable margin left. This means that the campaign will have to take the form of propaganda, whose objective is to induce the farmers to curtail expenditure on consumption.

In this disscussion we have assumed that the farmers have been really so much better off that they can afford to save. This assumption also underlies the Government's efforts to increase the tax contribution from the rural groups. To the extent that these taxes take away a portion of the income of the agriculturist, the margin for savings would tend to be diminished.

Prospects for a High Interest Rate: To a major extent the desire to make speculative gains is an important motive force which determines the response of the private investor to Government securities. In this connection the State Governments have found that the cheap money policy had to be revised and the rate of interest had to be slightly raised recently to 3½ per cent. To the extent that the rate of interest is raised and there is a possibility of it being raised in future, the prices of securities will come down and

there will be a bearish trend in the stock market. That is why some people have held that Government should give an assurance that they are not going to increase the rate of interest further, but only content themselves with a 'once and for all' rise. The merits of such a policy have to be tested on practical grounds. It is true that the response from the private investor who depended on the rate of interest as a source of income has diminished mainly on account of the increases in the price level. But to the extent that speculation rather than motives of real investment dominate the market for Government securities, one wonders whether it would be appropriate to raise the rate of interest and announce that no further rises will be made.

Need to Mobilise Support of Workers: There are some fields in which the Government can exploit the desire of individuals to have a chance of large gains with little risk by introducing the system of lotteries and prize bonds. This may be introduced particularly in the labour areas. Instead of paying the labourers bonuses in the form of national savings certificates, the workers may be found more willing to buy bonds or tickets which offer them the prospect of considerable capital gains after a period. This policy has been tried successfully in the Soviet Union. If necessary, a large number of prizes may be declared so that an individual's chances of gains may increase. At the same time it may be necessary to keep the unit of contribution at a level within the reach of large numbers of workers.

Competition between Public and Private Sectors: Another important aspect of the problem of maximising the contributions to the Government loan programmes is, whether under the existing conditions of the country, private investment plans are not being duly supported on account of the heavy demand for funds from the public sector itself. To the extent that the public sector gets more of resources by way of borrowing it may happen that the amount of funds flowing towards the private sector will be reduced. To this

it may be replied that activities of the public sector will lead to increased incomes and so the savings base for both the sectors will be ultimately enlarged. But as we have tried to point out earlier, in the case of backward countries like India, there is a long time lag between outlay on investment and the generation of real incomes. It is only an increase in the real income of the community that can, provided other conditions are propitious, lead to an increase in the saving capacity. It will be extremely difficult under the conditions of the country today to bring about an immediate increase in real incomes, and therefore of savings. It is obvious that the two sectors create a competitive demand on the meagre supply of savings. If this is so, then the question is whether it would be profitable from the community's point of view if the resources going in for public investment are increased at the cost of the private sector and *vice versa*. On account of the large degree of risks attendant upon private investment, it is natural that there would be a tendency among investors to prefer Government securities which carry the least amount of risk. In consequence, the development of private industries involving large capital will be hampered.

Taxes vs. Loans: Given a margin of resources that can be transferred without personal hardship to the Government either through taxes or through loans, a stepping up of the rate of taxation either in the form of increased direct taxation or in the form of induced increases in the prices of commodities which the individual buys, will lead to considerable evasion, on the one hand, and to large-scale resentment on the other. At the same time an increase in the taxes or the tax rates will diminish the amount of resources that can be invested in Government securities. It may be therefore, said that to some extent the loan programmes as well as the taxes are making a competitive demand on the individuals' incomes. Beyond a point the offer of a rate of interest may not lead to increased savings. Simultaneously an increase in the taxes (or the maintenance

of given taxes in the face of a changed price level) will tend to affect the borrowing programme itself.

Public Borrowing and the Price Level: Finally we would like to pose the question as to whether the diminished support to the Government loan programme is not more due to the drying up of savings on account of the continuously increasing price level, than to any unattractiveness on the part of Government securities as such. As indicated earlier, the main support to Government securities has come more from the institutional investors, the Reserve Bank and the State Governments than from private individuals. Under these conditions is not the problem of public borrowing closely tied up with the problem of the price level?

VI. FINANCIAL ASPECTS: EXTERNAL

Introduction: As we have seen, the Plan depends upon internal resources to the extent of Rs. 1,121 crores and external assistance of Rs. 82 crores already offered to India, which includes Rs. 69 crores available through sales of food loaned to India by the United State, and Rs. 13 crores available through sales of food and consumer goods supplied by Canada and Australia as part of the Commonwealth Aid Programme in connection with the Colombo Plan. If additional foreign assistance is not forthcoming then the amount of Rs. 290 crores needed to complete the first part of the Plan will be made available through the utilisation of sterling balances. The second part of the Plan envisaging an outlay of Rs. 300 crores is to be formulated on the assumption that foreign assistance will be forthcoming. The Planning Commission's report, unlike the Colombo Plan Report, does not give a clear picture of the balance of payments position as it would develop during the course of the Plan.

Provision for Balance of Payments Deficits in Colombo Plan : In the Colombo Plan an effort was made to calculate the extent of external dependence. Of the total outlay of Rs. 1,840 crores it was estimated that Rs. 810 crores would be the external finance necessary for the programme. External finance was necessary in order to cover the imports of (a) capital goods, (b) raw materials such as cotton, non-ferrous metals, timber and oil, and (c) food and consumer goods. It was proposed that the external finance should be absorbed in the economy through a planned deficit in the balance of payments. The total deficit in the balance of payments arising out of the fulfilment of the development programme was calculated at Rs. 1,090 crores. The planned withdrawal of sterling balances would cover the deficit to the extent of Rs. 280 crores. The rest of the amount, Rs. 810 crores was stated to be the minimum necessary for the completion of the programme. The total cost of capital goods needed for the programme was estimated at Rs. 316 crores. The balance of payments deficits were estimated after taking into account the import of consumer goods and industrial raw materials as well as of capital goods related to the projects contained in the programme, and also, after making allowance for an expected increase in exports. It was hoped that after 1957 the need for foreign finance would taper off on account of the increase in domestic production of consumer goods and industrial raw materials. At the same time, it was hoped that the need for imports would be reduced and earnings of foreign exchange would be simultaneously increased.

External Finance for the Five-year Plan : Of the total outlay of Rs. 1,793 crores, the total internal resources available amounts to Rs. 1,121 crores. The need for external assistance therefore is of the amount of Rs. 672 crores of which the assistance already available or promised amounts to Rs. 82 crores. For the rest of the outlay amounting to Rs. 590 crores, the Government will have to depend upon the withdrawal of sterling balances and additional

foreign assistance.[1] If we take the first part of the Plan only the withdrawal of sterling balances providing Rs. 290 crores would tend to make the transactions in respect of the Five-year Plan self-financing. But the actual requirements of foreign exchange for the capital goods necessary for the programme is put at Rs. 300 to Rs. 350 crores. If we take the latter amount, Rs. 60 crores may have to be provided for from the normal trade account. It may be noted here that in the Colombo Plan the external finance amounting to Rs. 810 crores was to be utilised for meeting the requirements in respect of capital goods, raw materials as well as food and consumer goods. Taking both the parts of the Five-year Plan, it appears that Rs. 360 crores would be the amount that would be actually necessary for the completion of the entire programme including the commitments in respect of capital goods. This amount excludes the provision for supplies of raw materials as well as food and consumer goods. It may be that a considerable volume of foreign assistance might take the form of the supply of consumer goods or raw materials, and thus help in the creation of counterpart funds to be utilised for development.

Need for Balancing Trade Accounts : Taking the first part alone, if we assume that the withdrawal of sterling balances would be sufficient for providing the finance for the supplies of capital goods needed for the programme and further if we assume that no additional foreign assist-

[1] According to an announcement made by the Finance Minister in the Indian Parliament, Britain has agreed to unblock practically the whole of India's sterling balances. According to an agreement reached in September 1950, Britain had agreed to release annually a sum of £35 million, totalling £210 million over the next six years. According to the new agreement, out of £643 million which India had to her credit on 30th June 1951 including a free balance of £50 million, £310 million will be unblocked and transferred to Account No. 1 as a currency reserve, which can be drawn only in times of emergency after consultation with the British Treasury. Out of the balance, £300 million (about Rs. 400 crores) will be released over a period of six years.

ance is forthcoming, then the normal balance of payments of the country during the planning period will have to be adjusted without the aid of these balances. For all purposes therefore, the trade account during the period will have to be balanced taking into account the need for imports of food as well as industrial raw materials. To the extent that the terms of trade go against us, or to the extent that the export surplus diminishes on account of the lack of supplies of materials, we will have to either face a situation wherein drastic curtailments in respect of consumer goods will have to be resorted to, or we will have to utilise the sterling balances for meeting our exchange commitments. In the latter case the position in respect of the supply of capital goods to the public sector would be affected. At the same time, we have to remember that we have no clear idea of the foreign exchange commitments on account of the need of capital goods and additional raw materials on behalf of the private sector, in order to complete the industrial targets indicated by the Planning Commission. We have also to note that during the period it would not be possible to allow for additional pressures in respect of the demand for consumer goods.

Assumptions by the Commission: Let us examine in greater detail as to whether we could assume that there would be no internal pressures created in the economy or no changes take place in the external situation so that there would be no increasing tendency for dificits on our balance of payments on current accounts. It may be noted in this connection that in spite of import restrictions, India incurred balance of payments deficits (excluding transactions with Pakistan) of the order of Rs. 100 crores or £75 million in 1948 and Rs. 169 crores or £119 million in 1949. The balance of payments position however showed a notable improvement during 1950, the transactions during the year resulting in a surplus of Rs. 62 crores, or about £47 million.[1]

1 If we include transactions with Pakistan India's deficit in 1949 amounted to Rs. 179 crores and in 1950 to Rs. 28 crores.

Devaluation has given a favourable turn to our balance of payments. This has been due to the rapid tightening of import controls, reduction in food imports, increase in the quantum of exports to certain sterling countries, and to the improvement of the terms of trade in favour of some of the commodities exported by India. As against the favourable effects of devaluation there has been no counter-balancing effect in the form of reduction in the prices of the articles which we have been importing. The continuance of our favourable trade balance depends on the continuation of drastic import controls, the possibility of the availability of food loans during all the years of the planning period, and the continuance of the favourable external demand for some of our commodities. We have also to assume that there will be no further worsening of the terms of trade in respect of the commodities which we are importing.

Heavy Pressures on Imports: To the extent that the development programme results in the creation of additional incomes, both due to the direct employment given by the establishment of certain concerns and to the secondary employment created on account of the working of the multiplier, a certain portion out of the increased income would tend to be spent on imported goods. Thus, the very process of development would result in augmenting the demand for imported goods. We can therefore conclude that the natural tendency would be one for increasing the pressures on imported goods. To meet this situation the policy of strict control on imports will have to be continued. But to the extent that import control is imposed, people would tend to create a demand for commodities within the country. This would mean that there would be a heavy presure on the limited stream of goods available internally. Along with import control, measures may be necessary for strict controls over the prices and allocation of the limited stream of goods within the country.

Implications of Deficits on normal Trade Account: If the control policy is not comprehensive, or not effective, then the total demand for imported commodities will increase. At the same time, unless there is an increase in the value of the foreign exchange earned by exports, the gap between imports and exports would not be narrowed. Moreover, we should remember that to a great extent the favourable balance of trade that has accrued on account of the increase in the value of exported commodities is due to two special reasons. Firstly, the Government has stepped up export duties in respect of commodities which are required for stockpiling by countries planning for war. Secondly, the total value of commodities exported has increased not on account of an overall increase in the internal production, but more on account of the diversion from internal consumption towards export on account of price advantages abroad. It is necessary that we should not lose sight of this important fact. The Commission assumes that the favourable trend would continue in respect of foreign trade; for if there are deficits on trade account, they will eat into the accumulated sterling balances. If the withdrawals in respect of sterling balances are increased both due to the estimated requirements for the various projects included in the development programme and also on account of the changes in the balance of payments situation on normal trade account, we will have to reconcile ourselves with additional restrictions on imports or have to make provision for additional exports. Under the present structural conditions of the economy this would mean the lessening of the quantities available for internal consumption, and may compel a reduction in the rate of development that has been envisaged.

Dynamic Factors affecting Balance of Payments: It may be said that we have been stressing the possibility of the outcome of unfavourable circumstances that might cut the very ground under the feet of the planners. There has been a great deal of complacent talk about the changes in the balance of payments position on account of devaluation. Assumptions and arguments based on a superficial observation of the figures of trade might result in a positive harm to the country, if there are sudden upsets in the external and internal situation. The final balance of payments situation in respect of a country depends upon two factors, internal as well as external. Even granting that there would be certain favourable trends in the external factors, our calculations will be upset if the internal situation is not well understood. A rapidly developing economy creates within itself increasing pressures for imported goods. We should add to the assumption of rapid development, the tendency of rapidly increasing population; we should remember that the alterations in economic forces due to changes in population should not be dismissed as short-term factors, in the case of an undeveloped economy with high growth potential in population. One of the most disastrous loopholes that can upset the estimates of planning is the assumption of population as a constant factor even for purposes of short-term calculations. The effect of increased incomes, monetary or real, and of an increased population would be the creation of an additional demand for consumer goods as well as for the machinery required for the manufacture of consumer goods. Given the inelasticity in the production structure, which is after all the basic fact in our country, the impact of increased demand both for essential as well as non-essential goods would be that resources formerly being utilised for export either directly or indirectly will have to be utilised for satisfying internal needs. In fact, the real increment to output is to arise only after the planning period. The important point in the analysis of the process of development is not what happens after the assumed maturity of the development period, but what happens during the process. If we are not clear about the working of the process, or if we base our calculations in respect of demands during the process on wrong assumptions, the very objectice of development will tend to be defeated or slowed down. The relevant questions in respect of the foreign trade situation are, whether, given the external forces, our economy

can sustain the additional pressure on consumer goods during the transitional period. Secondly, granted that we are in a position to control internal pressures, how far would our economy react if there are changes in our external trade position. To the extent that import prices go up or the demand for exported commodities declines or the prices offered by other countries for our exported commodities undergo an unfavourable change, we will have to think of ways and means of diverting internal resources for export.

Structural Changes in the Country's Economy : It is in this connection that we have to bear in mind the radical changes that have taken place in the structure and composition of our foreign trade during the last few years. All these changes have been accelerated on account of the partition. The accounts for the year 1950-51 reveal that of the commodities earning foreign exchange, cotton has displaced jute as the leading foreign exchange earning commodity. Commodities like oilseeds, spices and certain minerals have been exported in larger quantities. To a large extent though we are not strictly exporters of primary commodities, our export trade is indirectly affected by the supplies of primary commodities. An increase in the export of jute goods requires, apart from the uncertainty of increased imports of jute from Pakistan, an increase in the acreage of jute, which means less of land available for other crops. An increase in the exports of cotton manufactures requires apart from the import position regarding raw cotton, either an increase in the acreage devoted to cotton or a dimunition in the cotton manufactures available for internal consumption. Increased exports of oilseeds have been partly at the cost of internal direct consumption of oilseeds and also at the cost of increased production of food. Thus the crucial question ultimately would be the extent to which the restrictions can be imposed upon the resources used for internal consumption. If we treat the import aspect of trade as providing commodities for capital development, the problem would be one of choice between consumption and

investment. Do we have adequate control over the economy to operate the system effectively, so that a given objective is attained and the necessary targets kept up ?

Implications of Food Imports : We have so far kept out of the picture the possibility of increased resources that may be required for food imports. During 1951-52, thanks to the generous loan given by the U.S.A., our foreign exchange position has been eased. In the absence of such assistance over the entire planning period, we have to make provision for the expenditure of foreign exchange in respect of food imports. It is acknowledged by the Planning Commission that whatever the aspiration of the Government may be, it will not be possible for the community to achieve self-sufficiency in food, let alone in all the crops by 1957. This means that if foreign assistance by way of food loans is not available, the total foreign exchange commitments which will have to be necessarily utilised for purposes of imports of food will be nearly Rs. 500 crores over the period 1952-56, which might have to be earmarked as the first charge on our foreign exchange earnings. The Commission have made allowance for withdrawal of sterling balances for the necessary imports of equipment for the various projects. The amount of Rs. 500 crores for food will therefore have to be found from the foreign exchange earnings due to normal trade transactions. This would amount to nearly 25 per cent. of our normal foreign exchange earnings. What would be the effect on the various sectors of the economy, if there is an adverse trend in our balance of payments ? These are the problems that have to be studied in greater detail, before we can boldly say that the community can go ahead with the first part of the Plan in the hope that the sterling balances would be available for imports of equipment.

VII. CONSISTENCY IN REAL TERMS

Consistency depends upon Degree of Control : In a community functioning under a federal polity, in which the ownership of resources and the power to control and direct them are diffused among a number of authorities, it becomes exceedingly difficult to evolve a coherent, consistent and comprehensive plan. The plan will be characterised by a number of estimates which are based on certain assumptions regarding the behaviour of sectors and sections over whom the Central authorities can exercise only a limited amount of control. The Plan at its best becomes an effort to determine certain priorities and to allocate resources for the achievement of the stated priorities. To the extent that the control over the allocation of various types of resources is limited, the degree of consistency will also be less. If the Central authority does not have the necessary powers to influence the resource owning units outside its direct range, or if it does not intend to acquire such powers, or, if it has such powers, does not want to use them, there can be no guarantee that the different estimates given in the plan would be realised. In assessing the success of the plan, we have therefore, to probe into the possible deviations from expected behaviour in the excluded sectors.

Consistency in the Public Sector : Let us, for example, divide all economic activity into two sectors, public and private. Among the activities conducted by the public sector will be included all the activities of all government authorities at various levels, Central, State and Local. We might also include among the public sector all the existing or new activities in the commercial enterprise field which the Central authority has already undertaken or intends to take up. The medium of control might not necessarily be the State Department but might be a Public Corporation. But the essential distinctive feature is that the activities of all such bodies should be regulated according to certain stated objectives by the Central authority. It is possible therefore

to achieve a great deal of consistency in the public sector, if the planners are careful in preparing the estimates, and if there is perfect co-ordination between the various authorities in the public sector.

Lack of Integration between Private and Public Sector : As against this we have also got in the economy a number of activities which are subject only to an overall regulation by the State. All the private business and commercial ventures in the community fall into this category. Almost all the agricultural activity in India can be termed as private enterprise activity. It is quite possible that in an economy, the volume of resources owned by the various constituents of the private sector might amount to a significant proportion of the total resources, and in some cases it might happen that the Central authority might be completely powerless in influencing the way in which the resources should be utilised. The success of the Plan would depend upon the degree of control exercised by the Central authority over the activities of the private sector. When we talk of control, we normally assume that it will take the form of a number of restrictions limiting the range of activity of the private sector. Control need not necessarily mean restrictions. It would be sufficient if the activities of the private sector can be made to conform to a certain pattern, which is most conducive for the speedy achievement of the objectives pursued in the public sector.

Relation of Competition rather than of Complementarity : In a country like India wherein the State has accepted the policy of mixed economy and where a large element of private enterprise in various fields is prevalent, a plan will have to depend to a great extent upon the achievement of consistency in the behaviour patterns of both the public and the private sectors. If the supply position of resources in demand by the public as well as the private sectors is seriously limited, the relationship between the two sectors will take the form of competition rather than co-

ordination. The more of resources that the public sector has, the less can be left to the private sector and *vice versa*. The supplies of capital equipment, raw materials, basic materials, foreign exchange, finance, and technical personnel are limited in our economy. The private sector not merely owns a large portion of resources, but also supplies many of the basic factors demanded by the public sector. The First Five-year Plan has mainly concentrated on the public sector. But the successful completion of a number of projects included in the public sector depends upon the maintenance of an adequate flow of a number of basic factors. As a large portion of the productive activity is carried on by the private sector, which has also its own plans for expansion, unless the Government makes provision for a prior claim upon the necessary resources for the public sector, there is no guarantee that the different projects in this sector would be completed according to schedule. If the Government does want to emphasize mainly the need for completion of the projects in the public sector and does not want to permit a policy of expansion by private enterprise, it would become necessary that suitable forms of control over the distribution of various resources should be introduced. It is true that we have in our country today a number of controls over the allocation of some important materials. If the Five-year Plan is to succeed the number of controls might have to be increased and perhaps quantities of resources to be diverted for the public sector might have also to be increased with the consequence that the private sector might be left with very limited resources for purposes of its own expansion.

Need for Collection of Input-output Data: The above remarks have been made on the basis of certain assumptions. To realise the nature of the situation that may develop one should have access to comprehensive statistical data regarding all aspects of economic activity. The type of data which would be most useful and perhaps most essential from the point of view of formulating a completely

consistent plan would be the statistics regarding the different inputs employed by different industries and projects, the estimated additional quantity of resources necessary for the completion of the projects in the public sector, and the estimated supply of inputs necessary for the provision of the materials to be consumed in the various projects.

Financial Estimates only not enough: A certain rate of expansion in any given scheme is possible only when a certain rate of increase in the supply of materials for it takes place. If the supply of the basic resources necessary for the expansion in the production of inputs needed in the project is not available, the inputs will have to be diverted from some other forms of activity. In a shortage economy like ours wherein we cannot visualise large-scale expansion for an immediate increase in production in the coming years, expansion in one field will generally have to be followed by contraction in some other activity. That is why unless we take the detailed estimates for the different projects and also for the supplies of inputs available over the coming few years, we cannot *a priori* say that the Plan that has been presented is consistent within itself. Mere financial estimates do not indicate whether the different parts of the programme can function smoothly. Every estimate in financial terms must be checked up by an estimate regarding the supplies of resources. To the extent that estimates are based mainly on financial figures, there is always a possibility for the best plan to reveal large weaknesses and fail in the course of its working. It is true that the comprehensive working out of input and output data for the different constituents of our economy could not have been undertaken by the Commission within the short time at its disposal. But we strongly feel that an effort towards this direction should be made so that as soon as possible it might be possible for the planners to assess the impact of of different activities on the supply of different factors of production. Our economy is not a self-sufficient economy in the sense that it has not got within itself, the necessary

capacity to produce resources needed for the various projects both in the public and the private sectors. This means that a certain dependence upon outside sources is inevitable. To the extent that there are changes in the external situation the supplies of the resources would tend to be affected. If a proper input output relationship is worked out for the different activities, it can be immediately seen as to which form or which type of activity would tend to be affected on account of a certain unexpected change in the external situation. Such an understanding would facilitate adoption of an appropriate policy within a reasonable time. Otherwise the governments may proceed with certain programmes finding out only at a later stage, that they are not able to obtain the necessary resources.

VIII. THE PERSPECTIVE OF THE COMMISSION : CAPITAL FORMATION VS. SOCIAL JUSTICE

The Problem of Competing Goals : A noteworthy feature in the Commission's study is its analysis of the problem of competing goals. The Commission has stated the problem of the community as consisting of the following aspects : Firstly, there is need to rectify the disequilibrium in the economy caused by the War and the partition. Secondly, development of certain basic resources should be initiated so as to lay the fundation of a more rapid economic growth in the future. But at the same time, in finding solutions to the two-fold problem of rehabilitation and development, the considerations of social justice and the need for a progressive reorientation of the economy towards equality should be borne in mind. After stating the broad perspective in this manner, the Commission points out that

maximum production, full employment, lower prices, greater equality of incomes, all these objectives under the existing conditions of the country cannot be simultaneously pursued. There is, therefore, need for a balanced emphasis on each. The task of economic statesmanship is to keep close to that optimum combination of different objectives which emerges at each stage of a country's development.

Special Obligations of High Income Groups : The objective of increasing the output of essential consumption goods while demanding immediate attention, has to be reconciled with the objective of increasing the resources that flow towards investment. An early increase in consumption and a high rate of capital formation cannot go together. The Commission, therefore, points out that as the margin for savings is small, and as there are limitations for utilising idle resources, the objective should be to safeguard the immediate consumption standards of the vulnerable sections of the community at the same time that the bulk of the community keeps down its consumption. The Commission does not accept the technique of increasing the rate of capital formation by bringing about an increase in prices. Capital formation has to be promoted through voluntary or complusory savings and not through forced savings. It is in this context that the higher income groups have special obligations.

Limitations for Full Employment : The Commission rejects the objective of full employment as an immediate goal of an economic policy. It draws attention to the distinction between advanced countries where full employment is possible on account of supplies of capital equipment and other accessory materials, and backward countries where full employment is not possible on account of lack of adequate supplies of co-operating factors such as land and equipment. Development plans, according to the Commission, should aim at creating conditions for full employment at a later stage. It is in this background that the Commission

lays emphasis on development of agriculture and irrigation as well as cottage and small scale industries.

Taxation and Production : Discussing the objective of reduction in economic inequalities it points out that the existing disparities in wealth and income cannot be justified on grounds of social justice ; but a hasty implementation of measures to bring about economic equality will affect savings and the level of production adversely. The Commission lays emphasis on the responsibility of well-to-do groups who have to voluntarily adapt themselves to the implications of the new order. Large-scale investment by the State for basic development would create conditions for securing economic equality and bring the rural economy on a par with the urban economy. The same fear that production and investment would be affected if radical measures towards equality are undertaken has determined the Commission's views in respect of taxation measures. The Commission, therefore, argues for additional incentives for increasing corporate reinvestment so that profits could be ploughed back in industry. A voluntary freeze on dividends is suggested. At the same time, in order to correct disparities of wealth the Commission has recommended the device of death duties.

Assumptions of the Commission : A close analysis of the Commission's arguments points out that it has found it difficult to choose between the immediate needs to increase consumption standards and the basic necessity of increasing the rate of investment. That is why it does not make provision for measures calculated to satisfy the needs of social justice. The assumption is that any effort at redistribution of incomes would lead to a curtailment in the rate of private investment. It is therefore not inherently possible to increase the rate of direct taxation. At the same time the device of forced savings is rejected as it would harm the interests of those who are to be protected. The Commission

therefore stresses the need for voluntary efforts on the part of high income groups to curtail consumption and to increase the flow of resources towards investment.

Forced Savings : We have discussed earlier in connection with the analysis of the tempo of investment the issue as to whether even the rate of investment envisaged in the Plan can be sustained. We have pointed out that under the existing conditions of the country an increase in the flow of resources towards investment must be counterbalanced by a decrease in the flow of rsources towards consumption. In the absence of efforts calculated to bring about an increase in the real savings of the community, if we concentrate merely on increasing the rate of monetary outlay on investment, there is every possibility for the price level to go up, which means apart from the hardships it involves on fixed income groups and the uncertainties introduced in the economy particularly for the private sector, a virtual adoption of the technique of forced savings. In fact, the Government has systematically adopted the technique of forced savings in several other fields also. This is evidenced by the continuous increases in the prices of the goods and services supplied by the various State enterprises. On account of such methods the vulnerable sections of the community have been affected. We do not know how the Commission could ignore these aspects.

Importance of Social Justice : If it is true that consumption and investment are competitive under the conditions of the country, should not systematic efforts be made to reduce the consumption pressures and to distribute the burden of sacrifice in an equitable manner among the different income groups ? The problem of reduction in consumption should be viewed along with the problem of the need to satisfy demands of social justice. A reduction in the consumption standards of high income groups, deliberately brought about by State action will

achieve the twin objectives of increasing the flow of resources towards investment, and at the same time convince the low income groups of the fact that the high income groups are bearing a proportionate share in the sacrifice for national benefit. If the Commission had accepted the above approach, it would have formulated a systematic plan for austerity for the country as a whole. In the absence of any effort to introduce a programme of austerity for all groups, it would be inappropriate to continuously harp on the voluntary responsibility of high income groups. In the case of a backward country, wherein the majority of people enjoy very low consumption standards, the need for social justice becomes extremely important. The considerations which weigh in the case of advanced economies, wherein in spite of the differences between different income groups, the State does follow a policy of redistribuion of incomes through taxation and public expenditure policy, are not relevant under the conditions of our country. The ability of the State to utilise resources on schemes to provide for the minimum standards of the majority of the people is limited. It becomes, therefore, necessary to introduce measures with a wiew to avoiding conspicuous consumption on the part of high income groups.

Redistribution Measures and Investment: The implicit assumption in the mind of the Commission in rejecting official efforts to bring down consumption pressures on the part of high income groups is that the rate of capital formation would be affected. It is one thing to formulate nice theoretical possibilities and another thing to find out as to whether the possibilities actually exist in practice. Is it not true that private capital has continued to be shy in spite of the granting of all possible incentives? Is it not true, and this is more important, that the resources left in the hands of the high income groups with the hope that they would be utilised for investment have been continuously utilised for purposes of either conspicuous consumption or for what is more dangerous, speculative activities? What are

the statistical grounds for the Commission's complacent statement that an effort to reduce inequalities of income would be counter-balanced by a decline in the rate of private investment? Some sections of the high income groups in India, particularly among those belonging to the business and trading classes, have utilised the special facilities granted by the Government for purposes, which have brought down national repute and at the same time have resulted in artificial shortages leading to large price increases. How far is it correct to depend upon voluntary efforts in these fields? In respect of the Commission's assumption that savings would tend to be affected if redistribution of income takes place, may we point out the importance of the issue discussed earlier about the relation between the price level and the savings?

Importance of an Austerity Programme: It is, therefore, obvious that governmental measures which seek to redress the huge inequalities in wealth and income need not necessarily lead to a decline in net investment. But as drastic steps in this direction may lead to some avoidable frictions, it may be necessary to approach the problem in a slightly different manner. It will be seen later that the Commission has made several new suggestions for increasing the tempo of public response towards the Plan. But these suggestions provide only for the establishment of different organisations to pool together the enthusiasm of the public. The Commission has made provision for the form; but what about the spirit which alone can fill the organisational skeleton with flesh and blood? In other words, what about the need for inculcating a new spirit of enthusiasm and determination to undergo suffering and to undertake sacrifices for the building up of the country's wealth?

If the Commission had broadened its perspective to include the above issues, it would have immediately made provision in the Plan for a systematic programme of austerity embracing all persons, groups and areas. Such a pro-

gramme would have simultaneously solved two problems; it would have satisfied the demands for social justice at the same time increasing the quantum of savings. It would be going beyond the scope of this book, if we try to analyse the importance of bringing about an equality in the enjoyment of wealth and incomes rather than in bringing about equality in the possession of wealth and incomes. From the point of view of a backward economy, the psychological as well as the economic implications of the former technique indicate large potentialities for maximising the volume of the effort of the community towards national development, which however entails considerable suffering and sacrifice. The Commission has wholly ignored the pressing urgency of evolving a uniform and general scheme of austerity for the country. We give an outline of the austerity programme to illustrate our point in more concrete terms.

Nature of the Austerity Programme: If a programme of austerity is to be successful, the burden of sacrifice has to be apportioned according to the capacity of the different individuals or groups to bear the same. By austerity we do not merely refer to restrictions of expenditure on consumption goods. From the national point of view, all those decisions which help in the maximisation of the flow of resources towards investment and all activities which lead to a lessening of the pressure of consumption demand on resources would be included in the austerity programme. Such a programme will have to embrace all aspects of economic activity and at the same time be accepted by the different political parties.

It is possible for a Government to impose a programme of austerity by means of direct as well as indirect coercive or persuasive measures. The Government may step up the rates of taxation and thus reduce the volume of purchasing power that can be utilised for private expenditure. It can increase the prices of commodities by means of the levy of sales and excise taxes and thus reduce the consumption of these com-

modities. It can evolve an elaborate system of controls and apportion the limited resources of the community to the different industries or groups in an equitable manner. It can introduce strict control over foreign exchange expenditure and by means of the technique of exchange control reduce the pressure of consumption demand on imports. It can by official action even reduce the quantum of imports of luxury commodities and might also prohibit the imports of certain commodities. It can evolve a system of rationing and distribute the supplies of essential commodities, which are in short supply, to different consumers according to equitable quotas. It can increase the volume of savings by offering various types of incentives in order to step up public borrowing. It can introduce a system of compulsory savings so that a part of the incomes of the Government and other employees are automatically made available for purposes of investment.

The Government of India has been pursuing a number of measures in order to introduce a certain degree of austerity in the outlay of the individuals in the community. The success of such efforts has however been limited, partly on account of the lack of sufficient or efficient administrative machinery, partly on account of the limited objectives set for the austerity programme, and also on account of the lack of suitable response from the public towards it. It would be appropriate if the Planning Commission makes a detailed study of the potentialities of a large-scale austerity programme for the entire country.

Uniformity of Sacrifice: When a programme of austerity is suggested, it is common to point out that the living standards of the majority of the population are already so low in the country, that it would be futile to think in terms of a further curtailment in them. While this objection has a good deal of weight, we must remember that in a country like ours, so long as we do not think in terms of certain sacrifices for purposes of accelerating the pace of

economic development, it would be difficult at a later stage, to attain any modicum of development at all. The longer we postpone the need for following a programme of austerity, the remoter are the chances for a higher standard of living at a later stage. The process of economic development requires, that, in a country wherein shortages of goods are common, certain savings in terms of resources are absolutely necessary, if the country has to think in terms of a higher standard of living at a later date. In this programme of savings, the different groups with varied capacity to bear the rigours of austerity, have to make contributions commensurate with their ability to bear such sacrifices. In other words, the contribution to the common pool of sacrifices has to be apportioned appropriately, taking into note the incomes of different individuals and groups. In a similar manner, those regions which are already relatively better off, should be called upon to bear proportionately larger sacrifices than regions which are relatively backward. When a community has to think in terms of rapid economic development, it cannot at the same time think in terms of self-sufficiency for different regions or groups. Those areas which are surplus in several commodities must be called upon to contribute appropriately to the common stock of commodities, for distribution in areas, which are deficit in those materials. This would mean that the Government will have to be henceforth more strict in its attitude towards the areas which are producing surplus foodgrains. The quota for consumption on the farm, left over after the sales to the Government for procurement, has to be uniform throughout the country. So also there will have to be uniformity in the rationing quotas in different areas. There is no social justification for an economic policy which thinks in terms of 8 ounces for certain States and 10 ounces and 12 ounces for others. Apart from the inequity inherent in such a policy, we must not forget that disparities in the level of austerity in different areas or among different individual or groups lead to an atmosphere of bitterness due to inequality of treatment. The appropriate response

needed for the success of a planning programme will be lacking under these conditions.

Common Policy for Labour and Capital: It is in a similar context that we have to stress the need for a uniform policy in respect of labour as well as capital. If at one stage we want that there should be a ceiling on wages and we call upon the workers to accept their social responsibilities, we should also evolve a policy in order to put a ceiling on dividends. It would be the highest type of inequity to introduce compulsory wage freezes in respect of labour and to call for a policy of voluntary limitations of dividends.[1] It is obvious that the capitalist class would naturally tend to oppose any policy which seeks to put a limit on their profits. But if it is necessary in the interests of the country that our limited financial resources should be utilised for purposes of reinvestment, and if in the absence of dividend control, resources are frittered away on consumption or speculation, it would be perfectly justifiable for the community to call upon the capitalist class to bear their due share of sacrifices.

In this connection, we might also point out an anomalous situation that exists in the country in respect of compulsory savings. The drive for compulsory savings is operative in repect of government employees. But the total pay roll of the community includes the payments made both by the Government sector as well as the private sector. It is therefore necessary to include the private sector in respect of the drive for compulsory savings. There is nothing unreasonable in the proposition that the savings drive should be compulsorily introduced in respect of these individuals who are drawing large salaries under private employment. Just as the private employer is made responsible for the collec-

1. If the workers are to be compelled to accept the payment of part of their bonuses in the form of National Savings Certificates, why should not also the shareholders of companies be compelled to accept part of their devidends in the form of savings certificates ?

tion of income-tax at the source from his employees, he could also be asked to collect compulsory savings from those to whom he pays salaries or wages at the prescribed rates. As the number of organised large-scale private employers is limited and as many of the large industries are well-organised, it would not be difficult for the Government to extend the scope of the compulsory savings drive to the private sector also.

Curtailment of Luxury Consumption: The Government can also introduce stricter control over private expenditure both internally as well as externally. The Government may have to impose further restrictions on luxury imports. The issue here is not whether the value of such imports is significant in amount or not. From the point of view of creating an atmosphere which would lead to the maximum co-operation on the part of the people for the working of the Plan, it is necessary that as far as possible luxury consumption which is of the conspicuous type, should be checked in the transitional period. This would of course mean that the high income groups may have to bear certain inconveniences and discomforts. But the effect of such a policy in inducing co-operation from the other groups would be difinitely significant.

Austerity in Housing: Granted that we are having limited supplies in respect of several important commodities it would also be appropriate to regulate the large-scale private housing activity that is taking place in the country. It may be necessary to encourage the construction of houses which involve a lesser degree of pressure on materials like steel and cement, which are more urgently needed for the construction of irrigation and electrical projects. It may be necessary to encourage the utilisation of alternative substitutes in place of steel and cement. The community's ability to supply the resources would be greater after a particular period, when we can think in terms of a large-scale housing activity. At the same time,

in order to relieve congestion in the urban areas, it may be necessary to ration living space so that people with relatively larger accommodation are asked to make room for people who do not have housing space. The high income groups and the propertied class will have to undergo some discomforts and inconveniences, but to the extent that the limited resources that would be utilised for private housing are more urgently needed elsewhere such policy may become inevitable.

Need for Functional Approach: It is also necessary to see that the resources which are in short supply are utilised with due care. A corollary of this would be that a good portion of our activities will have to be functional in character. It would not be appropriate to think in terms of large-scale expenditure on artistic and architectural beauty in respect of buildings, private or public, for the present. The indusrtrial sector, particularly, will have to think in terms of production of commodities, which satisfy the simple needs of the public, but which do not involve additional outlay of limited resources for the satisfaction of artistic demands. This would mean that greater attention should be paid for standardisation schemes and the production of utility articles.

Conservation of Foreign Exchange: The resources available for investment purposes may be maximised provided we concentrate our efforts on limiting the consumption pressures during the planning period. We shall discuss later the potentialities in respect of a campaign directed towards reducing the population growth. A positive population policy should be considered as an essential concomitant of an austerity programme for the country. On account of the limited supplies of commodities available for internal consumption as well as for export, it will be necessary for the community to follow a policy of austerity in respect of goods which fetch valuable foreign exchange. If

the export quotas are increased, naturally the prices of commodities within the country would tend to go up. The Government may have therefore to be particularly watchful in its control policy. It way be necessary to extend the system of rationing to the goods and services which enter the export market.

Deferred Payments in Compensation : A programme of austerity will have its repercussions on the attitude to be followed in respect of the question of compensation to zamindars under the new land reform policy. Various State Governments have been undertaking reforms in respet of land tenure. The pace of the programme of the abolition of zamindari has been delayed with consequent bitterness among the agricultural groups on account of the inability of the agriculturists or of the Government to pay the necessary compensation to the owners. In a backward country like ours with acute pressure of population on land, any delay in land redistribution policy is bound to have severe repercussions on the attitude of the rural sector towards the Government's efforts for planning. The support of the rural sector can be mobilised more effectively, provided the latter feels that the Govrnment is sincere about its programme. If the large landholders were given deferred payments it would bring about a more harmonious relationship between the landholders and the peasants and pave the way for a greater degree of co-operation in respect of national Planning. The zamindars and landholders have also to accept their due share of sacrifice for the efficient pursuit of the common programme of rapid economic developmnt.

Austerity and Public Co-operation : We need not go into details regarding the programme of austerity. If the Government is determined to carry out such a programme, it would immediately create in the country an atmosphere, wherein the confidence of the public in respect of the Government's efforts to carry out the Plan, would increase. Uunfortunately an atmosphere of frustration and gloom

pervades the land today. The majority of the public undoubtedly have very low standards of living. In spite of this, the co-operation from the majority of the public would increase, provided the poorer sections of the community really feel that every section is making its due contribution to the common pool of sacrifice. Economic development does not result in equal benefits for all. It is not merely the share of sacrifice on the part of different individuals that matters ; it is also the share in the fruit. If a programme of economic development does not offer prospects of better standards of living for the population, it cannot command the acceptance of the people. Under these circumstances, a rigorous system of coercion may become necessary to implement the Plan. It would be difficult to enforce such a system of coercion in our country, and if attempted it would lead to grave political repercussions. Moreover, the constitution has guaranteed certain fundamental rights to the individuals such as freedom of expression and the right to own property. The Government has also accepted the policy of 'mixed economy' which does not think in terms of a comprehensive system of restrictions embracing every aspect of activity.

Importance of Leadership : It is in this connection, that we should encourage the scope of voluntary co-operation and sacrifices. The efforts carried on by Shri Vinoba Bhave in bringing about voluntary land redistribution and the success that has crowned his efforts is an event of profound significance. It points to the potentialities of sincere leadership in bringing about voluntary sacrifices. In a backward economy with a majority of uneducated folk, the play of non-economic forces and factors acquire a relatively greater significance than in the case of developed communities. Wonders can be done and have been done provided appropriate leadership is available. The provision of appropriate leadership is not merely a function of Government orders and regulations or of the speeches of the ministers. It also depends upon the atmosphere prevailing in the

country, on the degree of confidence of the public in the efforts of the Government to improve their standards of living, and on the degree of sincerity and truthfulness of the people controlling political parties or organising social work.

IX. THE SYSTEM OF PRIORITIES

Importance of Priorities in Planning: When we survey the different aspects of a plan referring to the country as a whole, it would be appropriate to ascertain whether the various projects, schemes and measures indicate a mutually consistent pattern with defined priorities. In fact, the very need for a National Plan arises on account of the possibility of the pursuit of unco-ordinated and diverse objectives by the different sectors in an economy, in the absence of a Central Organisation which defines priorities, and allocates limited resources to different activities according to such priorities. When we talk of priorities, we do not necessarily refer to specific schemes as such nor do we refer only to the distribution of resources amongst different types of investment. The problem of the determination of priorities embraces almost all aspects of the economic activities of the public and the private sectors, which have a bearing on the utilisation of scarce resources. It is not enough if we state that such and such schemes should be taken up first. It becomes necessary also to decide upon a proper order among the objectives to be attained. In fact, the problem of priorities has also to deal with the question of the proportion of resources that should be utilised for schemes of social amelioration on the one hand and output-yeilding schemes on the other.

Drawbacks in the Planning Efforts in India: One of the serious drawbacks in the development efforts in the post-War and post-Independence period in India has been the lack of any consistent system of priorities among Government programmes. There was no clear idea regarding the policy to be pursued. Even if there were certain vague statements on the part of the Central Government, there was very little effort made to see that the State Governments fell in line with the Central Government in following the system of priorities. To the extent that the Central and the State Governments followed different and diverse objectives, with the result that resource utilisation schemes in both the layers of government resulted in different degrees of emphasis, there was inherent in the system a certain degree of conflict, competition and waste. The lack of co-ordination that was visible in the schemes was merely a reflection of the lack of a clear system of priorities consistently adhered to by the different sectors.

Handicaps of the Commission: The Planning Commission was therefore faced with the *fait accompli* of a number of schemes which were already under execution. In fact, the Five-year Plan for all purposes is more or less a consolidated account of the various existing schemes. If we understand by planning a complete resurvey of resources that would be available and a redistribution of these resources into various activities according to specified objectives, the Five-year Plan cannot be called a plan at all. The Planning Commission at its best has introduced a sense of realism into the various unco-ordinated schemes of the Central and the State Governments. It has pointed out to the various Governments the need for the careful husbanding of the limited resources. It collected data about the various schemes and programmes in progress or under contemplation, and succeeded in pruning the different programmes in such a manner that they could become feasible in view of the limited availability of the financial resources. It has not gone into the details of every project and scheme as

such. A number of the schemes that were undertaken in the post-War period were not formulated in a technically scientific manner and did not have the perspective of the national view-point. On account of the expectation of large-scale financial assistance, and the lack of knowledge about the availability of the scarce resources, the different departments of the Centre and the various State Governments visualised large-scale schemes of reconstruction and new activity. The projects were not formulated on the basis of a clear-cut assessment of the time within which they had to be completed, and the Governments did not realise that continuance with the large-scale projects, irrespective of the conditions in the country, would result in creating heavy inflationary pressures within the economy. When the schemes were formulated, the Governments assumed that a particular price level would continue as constant.

Pruning rather than Planning: As has been clearly borne out during the last few years, the price level has shown continuously increasing upward trends. As a consequence of the increase in the general price level and the growing burden of the food problem, with its attendant foreign exchange as well as internal difficulties, the Government found that the cost estimates of the various schemes had to be revised and the available financial resources could not be sufficient to carry out all the schemes. A pruning, therefore, was inevitable. This is what the Planning Commission has done. The Commission, it appears, has bargained with each department of the Centre and with the State Governments in order to convince them of the need for limiting schemes of reconstruction and expansion to the extent that resources would be available. The Commission must be congratulated for carrying home to the departments of the government at its different layers the view-point that the coat had to be cut to suit the cloth that would be available. Another important advance in the outlook on Planning has been indicated by the Com-

mission in its emphasis on the concentration of resources on a limited number of essential schemes, rather than on a dispersal of resources over a wide area.

Preference for Short-term Schemes: It would be interesting to analyse the approach of the Commission in the selection of the schemes. First of all, broadly speaking we can have different schemes pursuing the same objective but maturing at different dates. Agricultural production can be increased either by means of the digging up of the tube wells or by means of the construction of tanks or by means of the construction of irrigation projects. The different types of schemes contribute different quantities of additional output and also involve different quantities of resources for their completion. Let us visualise that the same quantity of resources can be invested on two types of schemes—one yeilding smaller quantities of output at an earlier date and the other yielding larger quantities of output at a later date. The choice between the schemes will have to be made on the basis of the assessment of the comparison between the costs of increased waiting and the additional output that would be forthcoming. If we think that the community is not in a position to wait, we will of course have to prefer schemes contributing to output within as short a period as possible. This is in fact a cardinal point of approach in the Planning Commission's choice of priorities. To the extent that we utilise limited resources for purposes of schemes contributing to output in a relatively shorter period of time, resources will not be available for utilisation on schemes which would yield comparatively a larger output though at a later date. In other words, the choice between short-term and long-term schemes becomes mutually exclusive. This, on the face of it, appears to be a simple fact. But the significance of this fact will lead to far-reaching conclusions.

Neglect of Long-term Schemes: Given a certain limitation on the part of a community to supply resources

for utilisation on output-yielding schemes, and also given the existence of incessant pressure of population leading to a widening gap between the productive capacity of the community and the needs for satisfying the basic minimum of life for all, the more we concentrate our attention on short-term schemes, the remoter is the possibility of our ability to increase the productive capacity of the community. It is in this context that we have to think of the schemes maturing at later dates as basically essential for introducing long-term stability in the economy. It is true that concentration on schemes which contribute to output after a long lapse of time will necessitate increasing pressures in the transitional period. But in the case of a backward economy possessing vast potential resources but not having internal productive capacity to utilise the same, a good portion of the effort of planning should be directed towards building within the community the necessary technological base, in such a manner that the community is in a position to expand at a rapid rate without limitations after a particular period of time. It is really unfortunate that the Commission has been over-whelmed with the present problems and has not been in a position to appreciate the need for an approach based on a long range point of view. Planning for a backward community must necessitate large-scale sacrifices. To use a familiar remark, "There can be no planning without tears." If austerity is to become inevitable, why not continue with a period of austerity for a certain additional time if we can really profit by it? The sanction behind economic planning for a backward community is that it should be viewed as a continuous process. Long range schemes may not at all benefit the present generation. But to the extent that they promise the certainty of an increased standard of living to the future generation, these schemes may be preferable to short-term schemes which emphasise the importance of getting rid of the present difficulties as soon as possible, at the same time evading the basic problems of the economy.

Financial Indivisibilities: We have seen that there is sufficient reason in the point of view which stresses the concentration of limited resources on schemes yielding output at a later date. Many of such schemes involve large-scale financial expenditure. Students of economics are aware of the indivisibilities in productive activities. Expenditure on a steel factory or on a multi-purpose project requires an outlay of a certain minimum quantum of resources. When once the community decides to embark upon such schemes, it must be prepared to accept the implication that given quantities of resources will have to be necessarily diverted to such schemes irrespective of the transitional pressures and tensions.

Direct Output Yielding Schemes: There is also another type of choice to be made in determining priorities. There are various schemes, some of which contribute to output directly and some of which contribute to output indirectly. As an example for measures which contribute to output indirectly and at a later date, we can include the expenditure on education. Education, particularly in the rural areas, results in the creation of a consciousness and a certain rational attitude on the part of the village folk whose response to governmental demands might increase in consequence. It would also help in the formation of co-operative societies, joint village programmes and such measures which would also contribute to output. A backward economy, in many cases, has to choose between schemes which contribute to output directly and those which contribute indirectly. The Commission has however, adopted the approach of limiting expenditure on such social services.

Indirect Output Yielding Schemes: Even within schemes which would contribute to output indirectly, there can be a choice between those which contribute to output at an early date and those which contribute to output at a later date. Take for example expenditure on technical

education or on primary education. If there are limited resources available for disposal on expansion of education, the Government can either spend more on technical education or on primary education. Increased expenditure on primary education necessitates at a later date increased expenditure on secondary education and so on. In fact, many of the State Governments in India have had to choose between offering increased assistance to universities and similar centres of higher education or to institutions meant for education at a lower layer. Without entering into controversies over this issue, we can only point out that there is a need for evolving a proper balance of expenditure within various sections.

Non-output Yielding Schemes—Welfare Measures : We have discussed above the problem of determining priorities in the case of output-yielding schemes. A modern government has in many cases to distribute its resources not merely on schemes contributing to output but has also to devote resources to measures which may not at all contribute to output. In fact, it is quite possible that certain measures may have to be undertaken which involve additional pressures on the limited stream of goods and may even reduce the output in the transitional period. It is in this context that we have to include the significance of the different types of legislation on various aspects passed by the Central or the State Governments. It is here that we meet with the conflict in value judgements between schemes which aim at improving the moral standards of the people and the schemes which contribute to output.

Efforts to Establish a Welfare State : The Central and the State Governments in India have been professedly following the policy of establishing a welfare state in the country. The concept of a welfare state is not very precise. It might refer to a state wherein the government undertakes all activities to increase the welfare of the people. In its limited sense of the term, it refers to a state which

undertakes the responsibility for improving the welfare of the depressed sections in the community. Welfare legislation may result in the provision of social amenities and services to groups which are not enjoying adequate standards of living. The state seeks to impose a sense of social reponsibility on various sectors by means of legislation. Not merely does it itself undertake maesures to improve the living conditions of certain groups, but it also passes legislation making it binding on privileged groups to devote a portion of their resources for the provision of important amenities. The Governments in India have been following the example of Great Britain in this respect. Schemes for the establishment of minimum wages in industry, for evolving a proper institutional organisation to settle disputes between labour and capital, for provision of housing facilities on the basis of contributions from the employers, the state and the workers, and for the introduction of profit-sharing have been included in welfare legislation during the last few years. At the same time, the State has accepted the responsibility for improving the lot of the backward classes in the community. It has made provision for special facilities and amenities to the members of these groups. In the field of agriculture, there have been efforts to introduce minimum wage legislation. At the same time the Governments are introducing rapid land reform legislation or helping the establishment of institutions like co-operatives to assist the farmer. Many States have made primary education compulsory and free. The Governments have also drawn up large-scale schemes of expansion for health services. Some of the Governments have undertaken policies of prohibition in order to lift the moral and living standards of the various groups.

Capital Formation Versus Social Welfare : In this way, on the whole, there has been a significant effort towards introducing welfare legislation. At the same time it must be remembered that the introduction of welfare schemes does involve a certain drain on limited resources.

After all, one cannot decide as to whether it would be better for the community to have more of, let us say, bicycles or be free from the evil of drink. But there are heavy social pressures in the community which call for large-scale expenditure on social services. But there is also a point of view that the Government should introduce social welfare measures only after the community has attained a particular level of development. Backward countries undergoing the process of rapid industrialisation are bound to face the conflict between expenditure on capital formation and that on social services. The Western countries industrialised during a period, when the pressure on the Government to introduce welfare legislation came at the fag end of the process of Industrial Revolution. The commitment on welfare measures necessitates re-distributive taxation which may affect the rate of capital formation. To the extent that the community is not in a position to transfer resources from the well-to-do towards the less fortunate, the government will have to devote resources, which could have otherwise gone for investment, towards measures to implement the social welfare schemes.

The Issue of Prohibition : Some the State Governments have given up the revenue that was accruing to them on account of provincial excises on liquor. The adoption of prohibition policies has crippled the potential revenue resources available for direct development. Apart from the crippling of revenue resources, the excise duty acted as a deterrent upon consumption of other goods. To the extent that the pressure on limited consumption goods has increased on account of the prohibition policy, there has been an additional inflationary pressure. But we cannot on the face of it argue that the prohibition policy is good or bad. We can only suggest that given the prohibition policy, it is the duty of the Governments to adopt deliberate measures to see that the resources that have been prevented from flowing towards liquor, should be utilised in such forms of activity that would contribute best to economic

development. It would not be in the interest of the community if, the individual, who gives up liquor, does not spend the money on improving the educational standards of his family or on redeeming his debts or on improving the capital investment on his farm, but spends it all on consumption goods. If this happens, the very purpose of prohibition would be defeated. Even granting that certain expenditure on social welfare activities should be undertaken by a government, we should see that such measures are followed by the establishment of corresponding institutions so that the tempo of development is increased. Our criticism on the specific issue of prohibition is not that it results in the diversion of resources which could have gone for utilisation by the State, nor that the State has no right to impose its moral standards on individuals. One cannot compare the increase in the satisfaction of an individual on account of the loss of opportunity for drink, with the satisfaction that he or somebody else could have had with the provision of electricity. But we maintain that it is the duty of the government to adopt a positive policy in such a manner that the resources that are saved by the abolition of the drink habit do go in some measure for private or public investment. Of course, if the individuals continue to drink illicit liquor, it is obvious that either the Government must increase its expenditure on security services to prevent the breaking of the law in order to succeed in its objective, or change its policy to prevent the resources, formerly going to Government exchequer, from going to private expenditure through illegal means.

Need for clear Verdict regarding competing Social Goals : A clear verdict by the Commission on many of the issues indicated above would have gone a long way in helping the Government to get at a correct picture about the implications of some of the social service schemes. The Commission recommends the establishment of minimum wages both in agriculture and in industry. But how far such measures are compatible with a dynamic economy wherein

the motive force of developmnt consists in the diverting of resources towards capital formation, is yet to be investigated. It is all right for a community with a high state of development and well-equipped capacity to think of legislation with a view to fixing minimum wages and working conditions. Most of the concerns in a backward economy would tend to be not yet fully established in the sense that they would be in a process of expansion. So long as an individual concern utilised its resources for expansion, it would be quite in the interests of the community. But the introduction of minimum wage laws throughout the economy may result perhaps in increasing the consumption pressures in the economy. Moreover, it might come in the way of the development of small-scale or unorganised enterprises or small units in an industry which have to go through a period of limited earnings and have to utilise as much of surplus as possible for reinvestment and expansion. The Commission's suggestion that minimum wages should be introduced in agriculture, once again is based on the acceptance of certain ideals rather than on an assessment of practical difficulties and limitations.

Need to introduce Complementarity and Consistency : It is, however, unfortunate that the Commission nowhere in its plan has discussed the significance of the issues described above. Any determination of priorities cannot ignore the study of the principles and conditions which should determine the allocation of resources amongst various objectives. In a community with limited resources any attempt at large-scale development must be based on a clear-cut knowledge of the implications of the acceptance of certain objectives as against others. A shortage economy cannot afford to have more of everything. It cannot think of giving up sources of revenue and at the same time think of augmenting revenue resources. In many cases the objectives instead of becoming complementary tend to be competitive. The dispersal of resources among diverse forms of activities does not result in as much increment to output as it would

have resulted in, if the resources had been concentrated on a limited number of objectives. A community which wants to undertake rapid schemes of development has to evolve a certain degree of priorities among the objectives, however, necessary all of them may be. At every point of time the community will be faced with increasing pressures on limited resources. If the limited resources are deliberately utilised for certain fields in the first few years so that the community's capacity to produce more at a later stage is increased, it will be possible for it to undertake at a later stage, without involving itself in heavy pressures, certain forms of activity which do not contribute directly to output. It is in this context that the entire scheme of priorities and objectives that has been stated and followed by the Planning Commission has to be viewed. It is not sufficient if we enumerate different objectives and conclude that the community should seek to attain them. The priorities which are placed before the community should be such that there is no inconsistency and conflict among them. This does not mean that the first things to be followed in one State should be the first things to be followed in another State also. So long as there are different degrees of resource limitations in different States, it is possible for certain States to lay more emphasis on some schemes which work out cheaper from the national point of view than on others on which a different State would be laying emphasis. But what is important is that the different ways of utilisation of resources and forms of economic activity, viewed from the point of the national interest, should be such that there is co-ordination and complementarity between the activities. The co-ordination and complementarity that should exist do not refer to the situation existing at any given point of time. A plan deals with activities over a period of time. There should be the same uniformity in the activities of the community over the period of years also. This means that when once a certain system of priorities has been accepted, it is binding on the different sectors in the community to continue with such priorities irrespective of sectional pressures.

Replacement versus New Activity: Another important choice which is to be made under the circumstances of the country is that between new activity *versus* replacement. The Five-year Plan for all purposes is more or less a plan for rehabilitation and replacement. Almost the entire expenditure on railways is devoted for replacement of locomotives, wagons and track. In the case of the industrial sector also, the Commission has stressed the importance of replacing worn out machinery and plant. In fact in its scheme of priorities for industry the Commission has given first place towards the outlay in respect of replacement. It has made provision for the utilisation of the resources available through the E.P.T. deposits in order to assist the industries in their efforts for replacement.

In this connection an important problem arises before the community. How far would it be wise on the part of the country to utilise its limited foreign exchange resources for the import of capital goods, which are essential for the starting of industries which manufacture the plants required for purposes of replacement? In the same vein, as the Government of India has embarked on the construction of a locomotive factory in the country, how far would it be advisable to wait for a few years and to postpone the outlay in respect of replacement until the indigenous factory starts production? In the case of the industrial sector, if proper investigations are conducted, it may be found that the total outlay that is to be utilised for purposes of replacement of worn out machinery might be profitably diverted for the starting of the industries which manufacture the plants. It is true that a considerable period will have to elapse before these industries are in a position to produce the needed plants. Until that period, the industries will have to continue with the existing plants. From the national point of view, the addition to the capital wealth of the community that will take place on account of the starting of the new machine manufacturing industries might be greater than the loss on account of the additional wear and tear of

the existing plants. During the period, however, the foreign exchange that would have been utilised for imports of plants would go in for the imports of machinery needed for the starting of the new industries. If machine manufacturing industries are started in the country, indigenous resources would tend to be utilised, and though in the immediate future the cost of the plants may be somewhat high, on account of the large base for expansion which is provided, the cost would tend to go down ultimately. The same considerations weigh in the case of the railways also. We suggest that the Planning Commission which has completely ignored the importance of the problem indicated above, should investigate in detail the pros and cons of postponing replacement and concentrating resources on expansion of new industries which help to manufacture machinery needed for replacement. This course would be beneficial from the long-term interests of the community though the private industries as well as the railway system may not find it to their immediate advantage. From the broad point of view, our suggestion would only mean the continuance of some additional strain during the period when the new industries are to be started. In the case of the railway system the community will have to bear for a few more years the irksomeness associated with the existing conditions of travel.

Priorities not related to Real Resources: In conclusion, we would emphasize the lacuna in the Commission's Plan in that the priorities do not have any relationship to the actual assessment of the availability of real resources. It is one thing to talk of increased resources to go in for irrigation schemes, power projects and also for housing projects. Given the limitation in respect of steel and engineering and building materials, what should be the exact allocation of the limited resources amongst the various fields? To what extent does the private and public housing activity come in the way of the continuance of irrigation projects whether now or at a later stage? These are the questions which have to be finally settled on the basis of

an actual study of the resources available during the planning period and also of the impact of the development programmes on the availability of resources.

X. THE PATTERN OF OUTLAY ON INVESTMENT

Pattern of Outlay in the Plan: We have discussed above the Commission's approach in the determination of priorities. The Commission has laid great emphasis on agricultural reconstruction. The total expenditure on agriculture including that on irrigation and power amounts to about Rs. 640 crores or 43 per cent. of the total outlay. Transport and communications take the next place involving an outlay of Rs. 388 crores or 26 per cent. of the total. The total expenditure of the public sector on industry amounts to Rs. 101 crores or less than 7 per cent. of the total. The expenditure on social services, rehabilitation and miscellaneous items, amounts to Rs. 362 crores or 24 per cent. of the total. The Commission has stated that the distribution of the second part of the Plan will also in the main conform to the above pattern.

Neglect of Capital Goods Industries: In the case of an undeveloped economy seeking rapid development through the initiative of the State, one of the most crucial problems would be the determination of the optimum distribution of resources among the various fields. It is not enough that the rate of investment is increased. What is perhaps equally important is the distribution of limited resources amongst different types of investment in such a manner that the community is in a position to attain a significant increase in the standard of living within a

specified period of time. The pattern of investment outlay should be such that the community is in a position to expand at a more rapid pace after the maturity of the first part of the planing programme. In the case of an economy like India beset with shortages in many respects and not possessing internal capacity to accelerate the rate of utilisation of potential resources, one would naturally expect that a greater portion of investment should be directed towards the building up of the technological base in the community. This would imply a large amount of emphasis on the development of industries at higher stages of production or in other words, capital goods industries and industries producing basic materials. It may appear surprising, therefore, that in the first part of the Five-year Plan, less than 6 per cent. of the resources (including depreciation of railway assets) is to be devoted for expanding the industrial base of the economy. Though the commission has not specified that we should include the expenditure on the locomotive factory and the telephone industry, if we include them, the total outlay on industry would only amount to slightly more than 7 per cent.

The Five-year Plan compared with previous Plans: The lack of emphasis on basic industries appears still glaring if we compare the Five-year Plan with the earlier attempts at planning. Table 16 indicates the changes in the degree of emphasis on different types of investment in the planning efforts in India. In the Bombay Plan out of a total outlay of Rs. 1,400 crores which comprised the schemes included in the first stage of the fifteen year Plan, as much as Rs. 790 crores or about 56 per cent. of the total outlay was to be devoted for the development of industries, particularly those producing capital goods. The post-War and post-Independent reconstruction schemes of the Central and State Governments also emphasized the importance of the building up of the industrial base of the economy. Accord-

ing to information compiled in the beginning of 1950, out of the contemplated total outlay of Rs. 3,456 crores, as much as Rs. 629 crores or about 18 per cent. of the outlay was to be utilised for the starting of various industries mainly under state initiative. In the Colombo Plan, however, the emphasis on industry was considerably reduced inasmuch as the Plan devoted only about 10 per cent. of the total resources for the development of industries. In the Five-year Plan the relative emphasis on industry has been further reduced and only Rs. 101 crores or about 6 per cent. of the resources are earmarked for industry.

Curtailment in Public Industrial Projects: If we take into account the actual projects which had been contemplated but have been curtailed we get a better picture. Amongst the post-War plans were included the following industrial projects:—

(1) a heavy electrical power plant factory estimated to cost Rs. 28.4 crores, (2) establishment of an independent aircraft factory estimated to cost Rs. 79 crores, (3) shipbuilding (including the acquisition of the shipyard) estimated to cost Rs. 12 crores, (4) synthetic oil project Rs. 21 crores, (5) aircraft manufacturing project at the Hindustan Aircraft Factory Rs. 17 crores, (6) radio equipment factory Rs. 8.1 crores, (7) diesel engine factory (cost not worked out), (8) lignite deposit in Madras (cost not worked out), (9) Sindri Fertiliser Factory (nearing completion and estimated to cost Rs. 23 crores), (10) the penicillin factory, (11) machine tool factory, (12) dry core cable factory, (13) rail coach project, (14) Mathematical Instruments Office, (15) two integrated steel plants with a capacity of 500,000 tons each (estimated to cost Rs. 179 crores), and (16) assistance to expansion programme of S.C.O.B., Tatas and Mysore Iron and Steel factories.

TABLE 16

Pattern of Outlay in the Various Plans

(Rupees crores)

	Tata-Birla Plan First Stage	Six-Year Scheme prior to Colombo Plan	Colombo Plan	Five-Year Plan
TOTAL	1,400	3,456	1,840	1,643[4]
Agriculture and Irrigation and Power	200[1]	1,608	666	642
Transport	110[2]	1,190	703	538[4]
Railways	...	704	480	350[4]
Roads	...	161	110	94
Ports and Harbours ...	...	77	11	11
Others	...	248	102	83
Industry	790[3]	629	180	101[5]
Social Capital	300	429	291	254
Housing	190	117	18	23
Health	40	95	52	84
Education	40	143	114	123
Others	30	74	107	25

1. Excludes outlay on power projects.
2. Industrial portion (Manufacture of epquiment etc.) included in Industry.
3. Includes Manufacture of Locomotives, Wagons and expansion of electrical capacity.
4. Includes outlay on depreciation of railway assets (Rs. 150 crores).
5. Excludes expenditure on the telephone and locomotive factories.

When we come to the Colombo Plan, we find that there are already curtailments in various projects. Among the projects included in the Colombo Plan are:—(1) one integrated steel plant, (2) heavy electrical plant factory, (3) aircraft manufacturing project, (4) Sindri fertiliser factory, (5) machine tool factory, (6) penicilin factory, (7) radio equipment and radar factory, (8) schemes for various industrial projects comprising chemical factory, 1 paper mill,

1 cement factory, 1 aluminium factory, 1 wire and wire products factory, etc. The significant alterations compared with the earlier Plan are, the decision to have only one integrated steel plant as against the earlier two, and the giving up of the projects in respect of synthetic oil, ship-building, the rail coach project, etc. If we look at the First Five-year Plan, we find that only a limited number of projects are included, amongst which are the fertiliser factory, machine tools factory, dry core cables factory, penicillin and paludrine factory, expansion of the salt industry, formation of the Eastern Shipping Corporation and the telephone industry. We do not find any mention about the contemplated steel factory. The heavy electrical plant factory and the synthetic oil project appear to have been given up. In the case of the States also, there appears to have been a significant reduction in public outlay on the starting of industries. The Commission refers only to assistance to the news-print factory in Madhya Pradesh, and the Mysore Government factory for the manufacture of nitrogenous fertilisers.

Neglect of Steel : The Commission, when faced with the choice of curtailing expenditure on non-industrial schemes or on curtailing expenditure on industrial projects, appers to have preferred the latter course. This may be in line with their aproach towards priorities. The Commission all along stresses the need for the completion of projects which have already been undrtaken. It appears that both in respect of the steel plant and the heavy electrical plant factory, no actual steps towards the construction had been undertaken. But from the wider national point of view one cannot be certain that the Commission's approach in deciding upon the allocation of resources towards the various industrial projects has been appropriate, if we keep in mind the long-term interests of the community. The Commission appears to have concentrated more on solving immediate tensions, instead of following a policy of continuing with existing tensions, but at the same time building up a productive base in the economy so that the basic gaps in the

system could be filled. Anyone who is aware of the factors which retard development in a backward country will appreciate that the most glaring deficiency of the Plan is in respect of industries producing capital goods and basic materials. When we think of large-scale development in real terms, the extent of development depends upon the supplies of resources available within the country. India is blessed with some of the best quality of iron resources in the world. But at the same time she finds that most of her projects are being retarded on account of the lack of supply of steel which has to be imported in increasing quantities.

Small Financial Outlay not sole Criterion : Merely because of the fact that the expenditure on steel plants would result in expanding capacity only after a period of five years, on account of the time required for construction, it need not follow that they should be given up. The Commission at another stage has indicated that projects involving large financial outlay should not be undertaken. Once again, from the point of view of judging as between various schemes the determining factor should not be as to whether a scheme involves a large financial expenditure or not. One does not understand how merely because of the large financial outlay certain schemes should become ineligible from the point of view of the Plan. What is important is whether the addition to the community's productive system, on account of the financial outlay, however large it might be, would be greater than if the outlay was distributed on a number of different projects. In the absence of expansion of the steel industry the community will be perpetually facing bottlenecks in respect of other schemes. That is why the steel industry happens to be the basic indutry determining the speed of development. Schemes involving large financial outlay and a prolonged period of waiting are not generally favoured by private industrialists in a backward economy. That is why the role of the State in accelerating the pace of development should be to concentrate on the deficiencies in the existing system.

Need for Long range View: It is true that the Commission contemplates assistance to some private factories in the iron and steel industry. But the total expansion in production that would take place on account such assistance represents only about 2,50,000 tons. The average annual imports of iron and steel products have amounted to 1,41,000 tons in 1948-49, 1,67,000 tons in 1949-50 and 1,72,000 tons in 1950-51, the cost of imports being Rs. 11.6 crores, Rs. 11.8 crores and Rs. 13.2 crores respectively. We do not have figures about the potential expansion of industries that would take place, if iron and steel products were available in larger quantities. The heavy pressure on these products indicates, however, that a number of private as well as public projects are being curtailed or held up on account of lack of supplies. Increased supplies of iron and steel would speed up the completion of irrigation projects. If there is a choice between utilising resources on some irrigation projects or on manufacture of steel, concentration on the latter course would delay the irrigation project for a certain lapse of time; but after the construction of the steel factory the limitation in respect of irrigation projects would be removed and there would be large-scale expansion in irrigation without creating additional pressures within the economy. It is obvious that the contribution to the irrigated area that is being made by the various projects included in the Plan would not be significant unless all the schemes are completed in full and even additional schemes are taken up. This means that the problem of irrigation will continue with us for a certain period to come. If we take a long range view, even the expansion of the agricultural capacity will be conditioned by the supplies of constructional materials. The more the supplies of steel and such co-operating factors, the greater the scope of opportunity in the community to expand the irrigation base in the system.

Heavy Electrical Plant Factory: In the case of the electrical plant factory, one does not understand as to why this too has been given up. India is blessed with vast water

resources whose utilisation is dependent upon supplies of constructional materials like steel, for the building of irrigation dams and also for the construction of hydro-electric plants which would be dependent upon the availability of electrical plants within the country. An integrated scheme of river valley development throwing up vast new areas for cultivation, the linking up of the different parts of the country by means of water transport and the provision of cheap power at low cost making it possible for the starting of various enterprises, big and small, are all determined by the rate of expansion in the supply of steel, electrical plants and such other materials. Let us imagine the vast horizon that would be opened up in our economy, if we are in a position to supply large quantities of steel and also manufacture electrical plants within the country itself. The Five-year Plan does not make any provision for these schemes. Being too much over-burdened with the present, it has not dared to look beyond 1956.

Two Paths in Development: Even granting that all the schemes included in the Plan materialise, which itself is a doubtful factor, will not be problems of the community continue as they are? The imbalance between production in agricultural production and population may be remedied to some extent; but as the economic system will not have within itself the necessary technological base, once again when the Second Five-year Plan is drawn up, the community will think of the immediate tensions and pressures and will tend to concentrate on additional irrigation and power projects. Once again there will be little of resources left for industrial development. It is really unfortunate that the Commission should have taken a short-term point of view in respect of deciding the pattern of investment. If at all anything can be learnt by the Soviet technique of planning from the purely economic point of view, the most significant lesson is the determined concentration of the limited resources towards capital goods industries and the industries manufacturing basic materials. The problems of a country

like India are far more intricate and difficult than that which the Soviet Union faced when it framed the First Five-year Plan. There is a glaring imbalance between the size of the population and the productive capacity in India. In the absence of radical measures to curtail the growth of population, we can be certain that the imbalance will continue. In order to remedy this imbalance there are two ways. One is to increase the food production in the short period by diverting a major portion of the resources for agricultural production. This might pehaps introduce a degree of self-sufficiency after a period of five years, but very soon we may land ourselves into a situation wherein the poulation growth will out-distance the agricultural capacity. That is why the second path is hard and arduous. We concentrate here on the development of the basic industries and technological skill so that though we may be burdened with tensions for a period of more than five years, the vista of actual achievement that would be possible after the period of stress and strain, would be such that rapid expansion in respect of irrigation, electrical production or the starting of numerous industries would be comparatively easy.

Alternative Pattern of Outlay : The Planning Commission no doubt was faced with the problem of the continuance of the existing schemes and their completion. But the crucial question when determining resource allocation is that which pertains towards the future. Bygones are for ever bygones in economics. What is important is the assessment of resources that are available in the forthcoming years and their distribution on those types of schemes that would contribute to the solving of the basic economic problems of the community. Merely because some resources have been already spent on certain schemes, it does not necessarily follow that we should continue and finish them. The distribution of resources and the contribution that they would make all pertain to the future. Whatever the limitations that are imposed upon the Planning Commmission, whatever the particular pressures that determine their choice

of investments, it is obvious that judged strictly from the point of view of contribution to national development and towards the filling up of the basic deficiencies in the system, the pattern of investment that is envisaged in the Plan is not necessarily the optimum one. Even though the alternative pattern that we have outlined above might involve some additional stress on the economy and for a longer number of years than five, there are sufficient grounds to feel that the suffering and the sacrifice would really be worthwhile on account of the vast scope for development that would be possible, if we concentrate on capital goods and thus on building up the industrial base. The development of the industrial base is closely inter-related with the development of the agricultural base. The deficiencies in agriculture have to be remedied by increasing the pace of industrial development. The Commission has not given due importance to the nature of inter-relationship between agriculture and industry. It has tended to solve the problem of agriculture from within agriculture. The rate of expansion of agricultural capacity is closely determined by the rate of supplies of materials and plants that can be utilised to expand agricultural capacity. That is why Commission's neglect of industries is the most serious deficiency in the entire Plan.

XI. ANALYSIS OF TARGETS

Agriculture

Measures to increase Acreage and Production : Out of a total outlay of Rs. 1,493 crores, the expenditure on agriculture and rural development as well as on multi-purpose and irrigation projects amounts to Rs. 528 crores or 35 per cent. of the total. Quantitative targets have been indicated in regard to expansion in agricultural production. Table 17

compares the targets for agricultural production in 1955-56 with the average annual production during 1941-45 and 1946-50.

TABLE 17

Comparisons of Targets in Agriculture

(*Figures in* 000's)

	Annual Average 1941-45	Annual Average 1946-50	Production in 1950-51	Estimated Production 1955-56	% increase during 1951-56
Foodgrains (tons) ...	43,656	43,401	43,463	50,600	16
Cotton (400 lbs. bales) ...	3,763	2,252	2,926	4,126	41
Jute (392 lbs. bales) ...	1,737	1,916	3,292	5,352	61
Oil-seeds (tons)	5,047	4,984	5,069	5,444	7
Sugar-cane (tons) ...	4,607	5,018	5,462	6,152	13

Considering the relatively large-scale increases planned for the different commodities and comparing it with the meagre rate of increase during the last two quinquenniums it is natural that doubts should arise regarding the feasibility of the targets. Inasmuch as more than 30 per cent. of the total outlay is to be devoted for expansion of agricultural production, any deficiencies in the calculation of the targets or in the formulation of the appropriate policy or in the administrative framework to help in the realisation of the targets will lead to considerable disappointment and frustration. To the extent that the targets are not reached, the diversion of resources towards agriculture to the exclusion of adequate provision for the development of industries will not be justified.

The Commission expects that major irrigation projects involving an outlay of Rs. 336 crores would bring under cultivation an additional area of 8.7 million acres and lead to additional production of 2.27 million tons. The minor irrigation schemes, about which no details regarding outlay have been indicated, are estimated to bring under cultivation 7.6 million acres and to lead to 1.9 million tons of additional production. The land improvement and reclamation schemes including the reclamation of land through the Central Tractor Organisation, the cultivation of fallow lands and other land improvement measures, are estimated to increase the area under cultivation by 7.4 million acres and to lead to additional production of 1.5 million tons. Similarly, manure and fertiliser schemes are expected to contribute .58 million tons seed distribution schemes .37 million tons and other schemes (?) .52 million tons.

Assumptions underlying the Agricultural Targets: The Commission remarks that the estimated targets for agriculture would be fulfilled provided appropriate administrative arrangements are made, and the price policy followed is consistent with the objectives of the Plan. The Commission has made detailed suggestions for reorganising the administrative machinery and for the creation of a new organisation in the villages. It may be indicated here that the Commission does not appear to have made appropriate financial provision for the administrative changes. How far a mere reorganisation of the existing machinery would be sufficient to bring about the estimated increases in agricultural production, and how far the new volunteer organisations working more or less in an honorary capacity can effectively bridge the gap between estimates and fulfilment are vital issues in any discussion on targets. In respect of price policy the Commission has indicated that the prices of commercial crops should be brought down so that targets for food production may be kept up. Here also, how far price policy would of its own accord lead to certain desired results in a shortage-stricken economy is an important issue on which the Commission has not thrown any light.

The Lessons of the Grow More Food Campaign: While analysing the extent to which the targets may be fulfilled, it may be appropriate to give an idea of the deficiencies in the Grow More Food Campaign. The Grow

More Food Campaign, which was initiated in 1943 after the Bengal Famine, consisted at first of a series of short-term projects, both permanent as well as recurring in nature. Supplies of adequate water, fertilisers, improved seeds and implements were included in the programme. The State Governments were to sponsor the schemes for the construction of wells, tanks, etc., and for the distribution of fertilisers, manures and seeds. The schemes were subsidised by the Central Government. In 1949 the Government announced the policy to achieve self-sufficiency in food by 1952. It was calculated that 4.8 million tons of additional production was necessary to maintain the same per capita availability of grains as was obtained in 1948. The Central Government have spent about Rs. 60 crores during 1943-51 in assisting the States for the G.M.F. Campaign. In spite of this large-scale financial assistance the response has been meagre:—

1. The targets were formulated on the basis of certain yardsticks. It was expected that certain definite amounts of outlay would lead to certain defined quantities of additional production. The detailed surveys conducted by the Ministry of Food revealed that while the yardsticks were more or less correct in respect of seed schemes, they were somewhat high in respect of manure and irrigation schemes. The margin of error has been put at about 15 per cent.[1]

2. On account of the lack of suitable administrative machinery to effectively distribute the various forms of assistance, only a limited proportion of the total outlay was actually spent on the schemes for increasing production. This was due to the existence of considerable scope for leakages. There was no effective machinery to make

1. The Planning Commission has remarked as follows in its discussion on the G. M. F. Campaign: "By and large it was felt that the relationships assumed between the various types of effort in the results of each were valid." As indicated in the text, the statement of the Commission is only partially true.—*Vide* Appendix to the Annual Report of the Ministry of Food and Agriculture for 1950-51.

sure whether the assistance was being utilised for the purposes for which it was intended.

3. The G. M. F. Campaign took the form of distribution of assistance to scattered farms rather than of an intensive development campaign embracing all aspects of rural activity. In this connection the most serious deficiency appears to have been the lack of complementarity in the assistance measures. To increase agricultural output, it is not enough if more manure is supplied. At the same time that manure is supplied, adequate provision for water supply is also necessary. In many cases even if water and manure are available the farmer might not be in possession of the necessary tools and materials.

4. So far as food production was concerned, on account of the lack of a follow-up machinery, considerable land was being diverted from foodgrains to commercial crops. To some extent while this might indicate that the G. M. F. Campaign had not succeeded, it must at least indicate considerable increases in the production of commercial crops. But the production of commercial crops does not appear to have proportionately increased during the last few years.

5. It is held that adverse weather conditions in many cases were responsible for diminished production. But as indicated in table 16, the annual average production in 1945-51 does not show any material increase over that during 1941-46. It is also contended that the Government did not take note of the additional consumption requirements of marginal producers, where additional production took place as a result of the G. M. F. Campaign. The Planning Commission, for example, has pointed out that the Government did not appreciate the fact that when the bulk of the producers live on the margin, there is no fixed relation between increase in production and the increase in the surplus which would be available. The Commission's argument, however, is not clear. While discussing the merits of the

G. M. F. Campaign, the issue is whether additional production to the estimated extent took place or not; not whether the entire additional production was available to the Government or not, though the latter is important for procurement purposes.

Targets in the Plan: The following comments may be offered in regard to the agricultural targets included in the Five-year Plan:—

1. While some details regarding the different major irrigation projects are available, we do not have corresponding information for minor irrigation schemes. If we study the figures in respect of outlay on agriculture, we find that the Central and the State Governments are expected to spend Rs. 137 crores during 1951-56, out of which the share of the State Governments amounts to Rs. 125 crores. Are we to comprehend that an outlay of Rs. 125 crores alone would bring under cultivation additional land to the tune of 7.6 million acres? If we grant this, then the cost per acre works out to Rs. 1.7. In the case of the major irrigation projects the cost works out to Rs. 3.8. Obviously there is need for a distinct shift of emphasis from the large projects towards the minor projects, if these calculations are correct.

2. The Commission has not given details regarding expenditure on land improvement, tractor projects, seed, manure and fertiliser distribution schemes. The Commission estimates that about 4 million acres of fallow land would be brought under cultivation. What is the financial outlay for these schemes and what are the sources from which the finance would be obtained?

3. The Commission appears to have utilised a standard formula for deriving production from acreage. In the case of major irrigation projects the production per 100 acres amounts to 26 tons, in minor irrigation projects the production per 100 acres amounts to 25 tons, and in land improvement and reclamation schemes to 21 tons. It would

be interesting to know whether the figures of additional acreage and additional production have been obtained on the basis of detailed investigation or on the basis of some formula. Has the Commission made provision for marginal land? It is true that provision must have been made for increased production owing to assured water supply in areas getting the benefit of irrigation projects. But even in this case there may be wide differences according to variations in soil. How far are we correct in assuming that so much of additional acreage must lead to so much additional production? In the case of land brought under cultivation by the Central Tractor Organisation, are we correct in a assuming that adequate water facilities are available and that on an average 21 tons can be obtained from 100 acres? How far can the Commission's targets be reconciled with the fact that in spite of an increase in acreage under cereals, production of food has actually declined? Is there any concrete proof that the same story will not be repeated in the case of the targets of the Planning Commission also?

4. Several of the multi-purpose projects as well as irrigation projects have been formulated without detailed investigations. To the extent that the cost increases at a later stage or unanticipated technical difficulties arise, the projects may not be completed in time and the targets may not be fulfilled.

5. While the Commission has indicated targets in respect of food crops as well as commercial crops, it gives details of additional acreage only for food-grains. The additional acreage of 24 million acres to be brought under cultivation by various schemes is expected to lead to a production of 7.2 million tons of food-grains. Detailed information is necessary regarding the sources from which the additional acreage necessary for the production targets for commercial crops are to come. The nature of the measures to be taken to bring the area under cultivation and the extent of the financial provision necessary for the success of these measures should also be indicated.

6. The Commission remarks in another connection that no additional incentives are necessary in respect of commercial crops. "Increase in the production of commercial crops may be expected in the ordinary course in view of the favourable factors which prevail at present and appear likely to continue." Now, the favourable factor to which the Commission makes a reference is obviously the price advantage in respect of commercial crops. How far is the Commission justified in assuming that the relative price advantage in respect of commercial crops will continue as at present? In fact, the Commission has clearly indicated the preference for a policy calculated to bring down the prices of competing commercial crops. In the face of the Commission's statement to this effect in its section on price policy and its reiteration of this view in its section on food policy, it may appear paradoxical that the Commission thinks at the same time of continuance of favourable factors in respect of commercial crops. To a considerable extent the favourable price advantage depends upon external factors about the continuance of which we have no guarantee.

7. Even granted that the favourable factors which prevail at present will continue during 1951-56, how can we maintain that these factors will of their own accord bring under cultivation net additional land? We must guard ourselves against an increase in the acreage of commercial crops which is brought about on account of diversion of food crops. If we do not make any provision for measures to bring under cultivation land which can yield the additional target of 1.5 million tons in respect of comercial crops, and if we depend upon autonomous forces to bring about the targets, the natural corollary would be that the farmers would tend to substitute commercial crops in place of food crops. When this happens, the targets in respect of food crops will not be realised.

Need to Avoid Mistakes: The above discussion shows that we cannot be quite defenite about the magnitude

of the increases in production that have been promised in the Five-years Plan. The Commission, however, points out that the figures are subject to the qualifications that administrative arrangements for the implementation of the programme will be made on an adequate scale and that the price policy followed will be consistent with the objectives of the programme. The difficulty in accepting the targets indicated by the Commission is that irrespective of the administrative arrangements and the evolution of a consistent price policy, there appear to be serious limitations in augmenting at a rapid pace agricultural production to the extent that has been indicated. Whatever the defects of the Grow More Food Campaign, one lesson to be learnt from it is, that in an under-developed country there are very serious limitations in accelerating agricultural production in a short period to a significant extent by means of different types of investment and assistance. The agricultural sector in any country responds rather slowly to external stimuli. It may take a number of years before the increase in the area expected by the Commission can actually materialise, and before the area for which irrigation is made available actually yields additional crop. If the Commission had indicated the exact procedure and methods by which they calculated the increases in area and production, it would have been possible for us to assess the suitability of the techniques employed. In the absence of such knowledge, while one does not know whether the Commission has actually utilised scientific techniques in calculating the magnitude of the targets, it would be difficult to accept the assurance from the Commission, that the large-scale outlay on agricultural schemes is bound to yield significant results. If the Commission's estimates are found to be wanting at a later stage, it would only mean that resources which could have produced additional output in some other fields had been misdirected. If the Commission has merely accepted the figures in respect of estimated increases as calculated by the various State Governments, there is large scope for exaggeration. If a country has enormous resources at its disposal it can afford

certain miscalculations. But in a country of shortages, there is the greatest necessity to see that the schemes and projects sanctioned do really merit the outlay on them. This is more so in the case of irrigation and power projects, wherein a large stream of outlay becomes necessary and is not revocable at a later stage. A mistake once committed will have to be pursued to its bitter end.

Errors in Cost Estimates : We have been witnessing during the last few years repeated revisions of cost estimates in respect of several schemes. The estimates in respect of Damodar Valley Project have been revised thrice. It appears that there has been no systematic survey conducted earlier in regard to the detailed cost commitments of each project. Figures have been given in the aggregate, which have no correspondence to actual outlay that will be necessary for equipment, materials, technical personnel and labour. The fact that the cost estimates tend to be revised may indicate either that certain unexpected changes in the price level have taken place or that the original estimate was incorrect.

If the Central Government indicates to the various units that it would assist them in regard to those schemes only which have small financial outlay, but at the same time would contribute large-scale increases to output or that it would sanction only those schemes which manifest the above characteristics, room is created for certain under-estimates and exaggerations on the part of the States. Each State in its desire to get Central assistance or sanction for some of its schemes would tend to under-estimate the cost figures and at the same time overestimate the advantages of the project. As a result of the encouragement of such tendencies any allocation of resources from a national point of view will tend to be distorted. The impact of these mal-allocations will adversely affect the working of the economy at a later stage. If expectations are not realised and cost estimates tend to get revised at the same time that the material contribution becomes less and less, the public will

gradualy lose confidence in the ability of the Government to undertake planning. We have reasons to believe that the above tendencies have been in actual operation during the last few years. It is unfortunate that though the Commission did have an apportunity to go into details of each scheme, it has not preferred to follow the arduous path, which might have perhaps involved certain additional expenditure on investigation, which in our opinion, would have been really worthwhile. These defects have remained on account of the Commission's decision to continue with the existing schemes which were formulated earlier by the various State Governments on meagre investigation.

Prospects for Fulfilment of Agricultural Targets : Unfortunately the Planning Commission has not at all been clear about the way in which it expects the agricultural targets to be completed and it has also not made clear the basis on which these targets have been formulated. What one expects is a clear-cut plan for the realisation of the production targets in respect of agriculture within the given period. We would like to point out in this connection that a breakdown in respect of agricultural targets should be given indicating the extent of dependence on private effort and the amount of financial outlay necessary on the part of the private sector and its distribution for the realisation of the targets. It must be remembered that agriculture in our economy largely functions on the basis of private ownership. To a large extent the response for targets laid down by the Government from the agricultural sector depends upon the attitude taken by the farmers, the resources at their disposal, and the existence of favourable factors in respect of climate, floods, etc. To the extent that the targets are made to depend upon private and autonomous responses, we are afraid that we have no basis for the statement to the effect that so much of agricultural acreage would be brought under cultivation and so much of production would result because of so much expenditure.

Electricity

Targets of Expansion : According to the figures published by the Central Electricity Commission, the total expected expansion in respect of electrical capacity including expansion by private and public authorities would have amounted to 3.1 million kilowatts by 1957. The expansion in respect of hydro-electric capacity was expected to amount to more than 2 million kilowatts within the ten year period 1948-1958. The actual figures of expansion given in the Five-year Plan indicate that the total expansion in the public sector in electricity would amount to 1.1 million kilowatts. It is obvious that there has been significant pruning in the case of electricity schemes.

The following table indicates the distribution of proposed outlay on electricity in the different States and the expected additions to electrical capacity:—

TABLE 18

Outlay on Electricity

	Total outlay during 1951-56 (Rs.crores)	Additional electricity capacity (000 kilowatts)
Madras	50.2	192
Mysore	12.7	171
Bombay	10.4	117
Travancore-Cochin ...	14.6	81
Hyderabad	27.0	60
West Bengal	16.0	54
Madhya Pradesh ...	9.3	55
Madhya Bharat ...	5.5	15
Saurashtra	2.6	12
Orissa	1.1	5

We have excluded the outlay on and the contribution from the multi-purpose schemes. The Commission, however, does not give any idea of the expansion of electrical capacity undertaken by private companies. This omission does not

correspond with the Commission's efforts at arriving at the figures of expansion in respect of the industries managed in the private sector. According to figures supplied prior to the establishment of the Planning Commission by the Central Electricity Commission, it appeared that large-scale expansion in electricity production was envisaged by several private companies. In order to arrive at a corect and comprehensive figure of the state of economic development that is to take place during the five-year period, we should have figures of expansion in respect of activities both in the public as well as in the private sector. We hope at least in its final formulation of the Plan, the Commission would remedy this deficiency.

Distribution of Resources in Different Regions : In selecting projects that have to be included in the Five-year Plan, the Commission appears to have concentrated only on the completion of the existing schemes. It has also not envisaged additional Central assistance to projects not already in execution. It is true that the Commission was faced with serious limitations in respect of the resources that would be available. But from the national point of view, the Commission should have decided upon the allocation of resources with reference to the ability of the different projects old or new, to contribute to output. The attitude adopted by the Commission has resulted in the exclusion of certain new schemes which might have contributed more to additional acreage and output than some of the existing schemes. It is well-known that certain areas of Madras are facing serious periodical shortages in respect of supplies of electricity. There were reports that the Madras and Mysore Governments have decided to exploit the waters of the river Kauveri at Mekedatu for producing electricity within a short period. In the case of choosing electricity projects, it would be wise to concentrate on those schemes which involve less outlay on account of the existence of natural water falls. We do not find any mention of the Mekedatu Projet in the Plan at all. If was reported that

the Government of Bombay would be at last taking up for construction the Koyna Valley Project which was expected to produce large quantities of electricity at cheap rates within a short period to relieve the heavy pressure on electricity in Bombay and also to supply large areas with water for irrigation. The Commission has made a provision for the construction of the Chola Power Station which is expected to produce 54,000 kilowatts of energy and would help in producing additional power for Bombay. Considering the potential capacity for development in the City of Bombay and its surrounding areas, besides the existing unsatisfied demand, it appears that the expected additional capacity would not be sufficient to satisfy all the demands. In choosing electricity projects and sanctioning new schemes, greater priority should have been given to projects which would produce electricity in areas where the existing or potential demand is large.

Possibility of Excess Capacity: The Commission has remarked that the Plans regarding electricity have been based on detailed load surveys. But the important issue is whether from the national angle the distribution of resources in different regions is appropriate. Unless corresponding industrial development takes place in the areas where the electrical projects are constructed we shall be having excess capacity in those areas. The Five-year Plan has devoted relatively meagre resources for the development of industries. The location of elctricity projects had been decided earlier on the assumption that large-scale industrial development would take place and that the State itself would start a number of industries. For example, it was believed that at least one out of the two proposed steel plants would be located in Orissa, and so the power generated from the Hirakud Project would find a ready market. The Central as well as the State plans in respect of industries have been drastically curtailed. Unless private enterprise fills the gap it may take a long time before the electrical capacity is fully utilised.

Industry

Dependence on Private Enterprise: We have already seen that the Commission has not given sufficient importance to industrial expansion in the public sector and that the major effort in the industrial field is expected to come from the private sector. The Government is, however, assisting the private steel companies and the salt industry in their schemes of expansion. The rest of the industrial sector is expected to develop on its own, though the Commission has indicated that the industries would be assisted by means of loans from the Industrial Finance Corporation and refund of Excess Profits deposits for purposes of provision of finance for replacement. Taking the schemes of expansion in private industry, any comment on the nature of the expansion becomes difficult on account of the lack of data on which the Commission has fixed the targets. There is one distinct difference between the targets in the agricultural sector and in the industrial sector. In the case of the former, as most of the schemes are to be initiated by the State, there is some room for the belief that the expansion schemes will be operated irrespective of changes in the external situation. The Government is directly responsible for providing finance, raw materials, capital equipment and technical personnel for the projects in the public sector. Owing to the lack of adequate statistical data regarding the availability of resources and the factors determining the variations in the supply of resources, we cannot be certain that the industrial projects in the private sector would be completed. In the first place, such a belief would have to be based on the assumption that apart from the share of the savings taken by the public sector, sufficient finance would be available for carrying out the various schemes of the private sector. Secondly, the needed quantities of foreign exchange equipment and supplies of raw materials, internal or external, should also become available to the private sector.

Problem of Finance : The Plan estimates that the cost of the expansion programmes of 18 important industries would amount to Rs. 125 crores in the next five years. But as many of these industries had already procured plant and machinery for development, the Commission assumes that the actual investment that might be necessary for achieving the targets of production in each industry would be smaller than the estimated figures. But against this must be included the needs of industries not yet studied. The Plan, therefore, estimates that the investment necessary for achieving the targets of production in the next five years in the entire private sector would be of the order of Rs. 125 crores.[1]

The Commission estimates that as the private industries have been able to obtain Rs. 12 to Rs. 15 crores per annum from the capital market, assuming that the investment market improves, industry would be able to raise Rs. 80 to Rs. 90 crores from the capital market over the five years. The Industrial Investment Corporations in various States are likely to assist the industries to the extent of Rs. 10 to Rs. 15 crores. In spite of this a large portion of the needs of industries may not be met. The Government therefore may have to provide the necessary assistance directly or through some other agency like the Industrial Finance Corporation.

Taking up the problem of finance for replacement, the Commission states that the major problem of industrial finance is not so much of capital needed for new expansion as that needed for renovation and modernisation. During

1. When we think of a dynamic economy we should think of the potential enterprises that might come into being during the course of the period. The starting of new enterprises would itself require additional resources. Under these conditions the Commission's conclusion that only Rs. 125 crores are enough for development schemes in industry is not borne out.

the War and the post-War period the production capacity of the industries have been subjected to heavy wear and tear. Normal replacements have not been made. Meanwhile there has been a rise in the prices of capital goods. The accumulated amounts in the depreciation funds are inadequate or the purpose of full replacement, while other reserves are locked up in working capital. The Commission estimates that the arrears of depreciation at the end of 1949-50 may be between Rs. 100 to Rs. 150 crores. As against this the only source from which the industries can expect assistance is the E.P.T. Deposits amounting to Rs. 60 crores. Since a portion of these deposits is released to meet the needs of working capital, the amount available to cover arrears on depreciation would be small. The Commission, therefore, observes that industries would have to rely on their own resources.

Analysis of Industrial Targets : Table 18 gives the targets of expansion in the various industries. The Commission has made provision for significant improvement in productive capacity in respect of aluminium, agricultural implements, power alcohol, super-phosphates, sulphuric acid and paper and paper board. It is good to provide for expansion in agricultural implements and diesel engines. In respect of power alcohol so long as there is no augmented demand for power alcohol for utilisation in motor vehicles, there are bound to be significant gaps between installed capacity and production. If we take the figures for 1950, not even 40 per cent. of the installed capacity in power alcohol appears to have been utilised for purposes of production. The schemes for the expansion of aluminium involving a six-fold improvement depend upon imports of accessories. The estimated expansion will take place provided external factors are favourable. The same appears to be the case in regard to the production of automobiles wherein

the Commission envisages a seven-fold increase in production. So long as the import position of components and accessories tends to be uncertain, as it is under the present international conditions, we cannot hope for the realisation of the targets in these industries. In the case of the cement industry the Commission envisages a 50 per cent. expansion of the capacity. This is plausible on account of the existence of internal productive capacity for manufacturing cement plants. Significant increases in cement production have taken place in India during the last few years mainly on account of the establishment of the industry manufacturing capital goods for cement manufacture. This should have been a clear pointer to the Planning Commission so far as industries manufacturing capital goods are concerned. The Commission does not envisage any expansion in the cotton textile industry, though it is hoped that both in yarn and cloth the actual production might increase. This depends upon the supplies of raw materials which would again depend upon the possibility of the realisation of targets in the agricultural sector. If we look at the figures in respect of the production of hollow-ware, we find that there is a significant gap between capacity and production. This is perhaps true in the case of all glass products. The gaps appear to be due to lack of adequate demand. But the Commission appears to have been concentrating on expanding the capacity in spite of the non-utilisation of existing capacity. In the case of the chemicals industry the estimated targets would be fulfilled provided there is a regular flow of imports, particularly of sulphur. In this case also the results may depend upon external factors. The Commission envisages expansion in soap production, which depends upon the stepping up of indigenous demand. Increased targets in respect of sugar production have also been indicated, the actual fulfilment depending upon increased supplies of sugarcane.

TABLE 19

Targets for Expansion in Industry
(Figures in brackets refer to installed capacity)

(Figures in thousands)

		Units	1946		1950		1955-56	
I.	Steel	Tons	890	(N.A.)	1,005	(1,071)	1,315	(1,659)
	Cement	,,	1,560	(1,800)	2,613	(3,276)	4,631	(5,140)
	Aluminium	,,	*	(N.A.)	4	(4)	20	(25)
II.	Automobiles ...	Nos.	N.A.	(N.A.)	4	(35)	25	(35)
	Agricultural Pumps	,,	N.A.	(N.A.)	31	(37)	79	(87)
	Diesel Engines ...	,,	,,	(1)	5	(12)	46	(51)
III.	Superphosphates ...	Tons	5	(50)	52	(123)	179	(216)
	Ammonium Sulphate	,,	23	(N.A.)	47	(74)	400	(429)
	Sulphuric Acid ...	,,	60	(80)	102	(150)	180	(230)
	Soda Ash	,,	12	(54)	44	(54)	78	(86)
	Caustic Soda ...	,,	2	(11)	11	(19)	29	(33)
	Power Alcohol ...	Bulk gals.	2,400	(6,240)	4,497	(12,808)	19,006	(21,118)
IV.	Cotton Textiles :							
	Yarn	Lbs.[1]	1,368	(N.A.)	1,174	(1,646)	1,600	(1,671)
	Cloth (Mills) ...	Yds.[1]	3,912	(N.A.)	3,665	(4,772)	4,500	(4,741)
	Sugar...	Tons	923	(1,128)	1,100	(1,520)	1,500	(1,540)
	Salt	,,	1,758	(—)	2,622	(—)	3,075	(—)
	Soap	,,	120	(200)	102	(269)	270	(288)
	Paper & Paper Board	,,	106	(106)	109	(140)	165	(212)
	Matches	Cases	412	(800)	523	(706)	690	(766)

1. Figures for Yarn and Mill cloth are in millions.
* Less than 500.

Need for Stockpiling of Raw Materials : The above review of the factors determining the realisation of the targets indicates the heavy reliance upon external factors. In the face of the existing international tension and the lack of provision in any part of the Plan for Governmental stockpiling in order to safeguard the industries, it is difficult to share the optimism of the Commission, that the increased flow of goods would reduce the pressure of demand internally, and in certain cases, make it possible for an increase in the volume of exports.[1] In this connection it would not be inappropriate if we point out that the Commission has indicated the targets in respect of only a few industries, whereas the War and the post-War period in India witnessed large-scale expansion in a number of industries.

Neglect of many Industries : A number of these industries are more or less dependent upon imports of foreign accessories or raw materials for production. If the diversity in the industrial sector that has been happily built up during the last few years has to be nurtured and maintained, the Government has to adopt a more sympathetic attitude towards the needs of most of these industries. The Commission somehow or other has concentrated on a few industries. We do not know the considerations which governed the Commission on choosing the industries for which targets have been indicated. It should have consulted the representatives of all industries and should have ascertained the possibility of increased expansion in the case of each and the factors governing such expansion. We hope that by the time the Plan is finalised the Commission will take into confidence these representatives. The pecular problems of each industry should be noted and attempts should be made to see whether there does not exist a sufficient market within the country for starting factories to manufacture accessories and com-

1. Since this was written it has been reported that the Government of India is making systematic efforts to stockpile some of the important raw materials.

ponents of these industries, which are now imported. If adequate information is forthcoming on all these respects some ventures may become commercially possible. This would result in the utilisation of unutilised resources within the country. This would also help in the expansion of the mining industry which does not find any place in the Plan, as individual industries or enterpreneurs might be willing to start new ventures. If standardisation methods are adopted, the size of the market will be increased and a more favourable atmosphere will be created for the establishment of new concerns in this field.

XII. TOWARDS SCIENTIFIC PLANNING IN AGRICULTURE

Distribution of Resources on Irrigation Projects

Significance of the Marginal Technique: The primary object of economic planning, in the narrow sense of the term, is to obtain larger and better results for a given amount of effort than would have been possible if there were no planning. On the basis of the objectives to be pursued, and the system of priorities to be followed, it is possible for the economist to give suggestions on the technique and the pattern of distribution of resources for achieving the stated ends, and to fulfil the accepted priorities. We may observe, for example, that the technique of marginal analysis helps to allocate resources on different projects yielding output. Planning connotes the maximum possible output from a given quantum of resource components. It seeks to find out the best possible way of utilisation of resources, and the best possible proportions in which the resources should be

combined. A proper application of the marginal principle will lead to that pattern of distribution of resources from which any deviation would lead to a decrease in total output.

It is therefore possible, if the objectives to be pursued are given, to adjust the utilisation of resources in such a manner that each objective is attained most efficiently. For example, let us assume that the Government has decided to spend a given amount of resources on agricultural development. To be more exact, let us say, that the Government has a choice to make as between tube wells, minor irrigation schemes and major irrigation projects. According to the marginal principle, it should be possible to get the maximum results out of the outlay. If there is choice between expenditure on the construction of a minor irrigation dam or a tube well, the choice has to be made in favour of the scheme which is likely to result in a larger acreage under cultivation. If the irrigation dam is preferred on this account, the community should go on spending resources on the construction of the irrigation dams until the marginal capital cost of a given addition to acreage through the utilisation of resources on irrigation dams works out to be costlier than the capital cost of adding the same area of acreage by the construction of tube wells. By following this technique we arrive at the appropriate distribution of resources between tube wells, minor irrigation schemes and major irrigation projects so that the total addition to output would be the maximum possible under given circumstances. If it is decided that certain quantities of resources are to be utilised on the construction of the tube wells, the resources should be so distributed in the different areas that maximum output is obtained. The distribution of resources yields the maximum output only when it is found that any marginal alteration or shifting of resources would not add to be total output. For example, if the average cost of 100 tube wells yielding the same average amount of acreage is less in a place like Uttar Pradesh than in Bihar, from the national point of view, it should be preferable to continue the outlay on tube wells in

Uttar Pradesh. The cost on the 101st tube well will not generally be much higher than the average cost of 100 tube wells. We have to assume of course that the different areas contain potentialitities for expansion of tube well schemes. We have also to make provision for the differences in local conditions. By scientific investigation it is possible to work out how a simlar dose of effort would yield different results in different areas. In deciding upon sites for construction of tube wells, we have to assume that the relative extent of dependence on rainfall in different areas would be the same. It would be, however, profitable for the community to construct tube wells in those areas which are more susceptible to failure of rainfall. This can be ascertained by an examination of past experience. Further, the outlay on tube wells should be such that maximum of economies could be obtained in respect of the cost for each tube well. The Government has to consider the best agency that can perform the task ; if it is possible to establish a single agency for the construction of tube wells all over the country, it would lead to several economies of large-scale construction, and might help in the establishment of factories for manufacturing the accessories needed for tube wells.

Illustration from Tube Wells : After having stated the principles in this manner it would be interesting to find out the exact position in respect of tube wells in the Plan. According to the estimates given in the Commission's detailed tables, Rs. 38 crores are to be spent on the various schemes which are expected to add an area of 2.7 million acres on completion. Owing to the differences in local surroundings, it is reasonable to expect that the cost per tube well would be different in different regions, and that the tube wells would irrigate on an average different amounts of land in different regions. Generally we expect such differences to be of a minor character. We assume that the different States must have carried out proper investigations in regard to the cost of each tube well and the acreage to be irrigated by it. As indicated earlier, we have also to assume away the

differences in soil fertility. For purposes of analysis we assume that each acre to be irrigated by the tube well will lead to the same quantity of agricultural output. Strictly speaking this assumption is not warranted ; but as the Commission has not given figures regarding the additions to agricultural production in the different regions, wherein the tube wells are to be constructed, and as the Commission does not appear to have selected the location of projects taking into account the variation in the fertility of the soil, our assumption may be treated as reasonable. Table 19 indicates the capital cost per acre of area to be irrigated by the tube well in different schems.

TABLE 20

Capital Cost per Acre of Area Irrigated by various Tube well Schemes

Scheme	Capital cost per acre of area irrigated by the tube wells (Rs.)[1]
Bihar :	
1. 300 tube wells in the North...	153
2. Tube wells in the South	121
3. 300 tube wells in sugar-factory areas ...	134
4. 200 tube wells in the South	123
Punjab :	
5. Dera Baba Nanak tubewell scheme ...	75
6. Aliwala scheme	71
7. Jagdhari Scheme	123
Uttar Pradesh :	
8. 600 tube wells in Western Districts ...	64
9. 50 tube wells in T.W. Circle	131
10. 200 tube wells in T.W. Circle	75
11. 440 tube wells in the Districts of Shahjahanpur, Sitapore, etc.	96
12. 5,293 tube wells	173
13. 100 tube wells in Gorakhpur, Basi and Docaia Districts	94

1. Figures arrived at after dividing outlay by the acreage to be brought under irrigation.

The cost per acre varies from Rs. 64 in the scheme for the construction of 600 tube wells in Western Districts in Uttar Pradesh and Rs. 71 in the Aliwala tube well scheme in the Punjab, to Rs. 173 in the scheme for the construction of 300 tube wells in North Bihar. The table indicates that even in a single State the cost per acre ranges from Rs. 64 to Rs. 173. The cost per acre is well above Rs. 120 in all the four schemes in Bihar. On the heroic assumption that the base figures indicated in the Commission's plan regarding the cost and benefit to be derived in these schemes are accurate, we may reasonably question the propriety of dispersing resources in the haphazard manner as indicated in the table. Would the 101st tube well in the Western Districts of Uttar Pradesh cost much more than Rs. 64/- ? Can no more tube wells be constructed in this and other areas, where the cost for additional acreage is less ? We do not think it possible that no alternative system of resource distribution can be devised so that for the total outlay on tube wells better results could be obtained.

Resource Distribution among Major Irrigation Projects : We have discussed above the possibility of increasing agricultural output by means of a better pattern of allocation in respect of tube wells. What about the resource distribution among various multi-purpose as well as irrigation projects ? Have we any reason to believe that the Government or the Commission have followed a more scientific technique of resource allocation in respect of these projects ? It is true that an expenditure of Rs. 144 crores had already been incurred in the case of several of these projects. In consequence, large-scale readjustments in resource allocations would have been necessary if a scientific technique of planning had to be followed. From the point of view of economic planning what is important is the future disposal of resources and the future addition to benefit. It is the proportion between these two components that should determine all additional outlays. The mere fact that considerable expenditure had been already incurred on a given

project does not warrant continuance of outlay on the same, if it is found that an alternative project, involving the same amount of outlay still to be incurred on the earlier projects, would lead to a larger increase in output. Table 20 indicates the capital cost per acre of additional area to be brought under irrigation by the end of 1955-56 and the cost per acreage after the completion of the projects.

As in the case of tube wells, we come across in this case also an amazing range of figures. Taking into account the multi-purpose projects only, we find that the cost per additional acre during the five-year period amount to Rs. 695 per acre in the case of Damodar Valley; Rs. 585 in the case of Bhakra Nangal; Rs. 349 in the case of Kakrapara and Rs. 1611 per acre in the case of Hirakud. On final completion the Kakrapara Project appears to work out the cheapest of the lot, in that the cost per acre is put at Rs. 203, whereas in the case of Bhakra Nangal it would be Rs. 339 per acre, in the case of Damodar Valley Rs. 566, and in the case of Hirakud Rs. 572 per acre. If it is desired to speed up the projects so as to bring additional acreage by concentrating efforts intensively in limited directions, the decision as to where a given amount of expenditure would lead to maximum results should be made scientifically. In this connection we have to pose the question whether the rate of speed with which the different projects are being constructed is the maximum? Is it not possible to accelerate the pace? What would be the additional cost involved in such acceleration? Would it not be preferable to finish some of the projects earlier, though during he period we may have to slow down the pace of some other projects? Is it not possible to work out scientifically the gains and losses in such shifts? It is not true to say that all expenditure in these projects is of the indivisible type. In many cases a good portion of the project work consists of activities, where it is possible to introduce the principle of marginal variation with profit.

TABLE 21

Capital Cost of Acreage to be Irrigated by various Projects

Name of the project	Cost per irrigated acre (Rs.)	
	By end of 1955-56[1]	After completion[2]
Multi-Purpose Projects:[3]		
1. Bhakra-Nangal	585	339
2. Damodar Valley	695	566
3. Hirakud	1,611	572
4. Kakrapara	349	203
5. Bhadra	845	1,111
Other Projects:		
6. Gangapur (Bombay)	780	879
7. Ghataprabha (Bombay)	445	454
8. Mahi (Bombay)	2,005	404
9. Goudli (Madhya Pradesh) ...	150	150
10. Dudhwa (Madhya Pradesh) ...	193	167
11. Lower Bhawani (Madras) ...	297	438
12. Malampuzha (Madras)	1,010	950
13. Mettur (Madras)	578	544
14. Manimuthar (Madras)	2,194	1,990
15. Walyar (Madras)	2,000	1,250
16. Tungabhadra (Madras)	615	728
17. Scheme for Raising Banks of Canals (Punjab)	100	126
18. Mayurakshi (West Bengal) ...	207	258
19. Sonarpur (West Bengal)	228	228
20. Rajolibunda (Hyderabad) ...	897	544
21. Godavari (Hyderabad)	895	832
22. Khuja (Madhya Bharat)	933	833
23. Tunga (Mysore)	710	952
24. Nugu (Mysore)	950	1,100
25. Jawai (Rajasthan)	258	520
26. Machu (Saurashtra)	309	345
27. Brahmani (Saurashtra)	277	327
28. Moj (Saurashtra)	480	480
29. Peechi (Travancore-Cochin) ...	229	360
30. Neyyar (Travancore-Cochin) ...	387	387

1. Figures arrived after dividing the total outlay during the period by the acreage to be brought under irrigation.
2. Figures arrived at after dividing the total cost on the project by the acreage to be brought under irrigation.
3. In the case of multi-purpose projects the benefits to be incurred regarding electricity have been omitted.

The large variations in the figures of the capital cost of an additional acre among the several single-purpose-irrigation projects indicates the unscientific attitude adopted in distributing the resources. In the case of one project in Madras, the cost per acre works out to as much as Rs. 2,194 whereas in the case of a project in Madhya Pradesh the cost works out to Rs. 150. The projects in West Bengal appear to cost about Rs. 200 per acre. If it is found that in any State the resources available for expenditure on irrigation dams are limited, and they have to be distributed in a limited number of projects, the technique of marginal analysis will help us in choosing those projects which should be continued and where efforts should be concentrated. As regards inter-State disparities in regard to the cost of additional irrigation, we are led to the conclusion that these projects do not indicate any semblance whatsoever of national planning. From the point of view of the community, whatever be the special characteristics and cost features in various areas, the important issue is, that, for a given amount of monetary outlay, only those areas should be chosen, where it is likely to yield the largest results in respect of additional acreage brought under irrigation. In the alternative, if the acreage to be brought under irrigation is given, the outlay should be concentrated in regions where the cost per acre is the lowest. It is not too late for the Commission to undertake detailed investigations to find out as to where it would be advisable in the community's interests to concentrate efforts as well as resources.

Need for Scientific Investigation: A further problem that is posed before the community is the relative degree of emphasis to be placed among different types of measures providing the same facility. Tube wells, minor irrigation projects as well as major irrigation projects lead to irrigation facilities. Suppose the outlay that the community can spend on irrigation is given, then if tube wells are the lowest cost form of expenditure for bringing a given

acreage under irrigation, the community should go on spending resources in this field, until the marginal return for a given amount of outlay in the case of tube-wells becomes the same as in the case of minor irrigation projects or major irrigation projects. The community has a large stake in irrigation projects. To the extent that resources are misdirected it is not any one area of the country that suffers, but all States as well as regions have to bear the cost of such waste. It is common in the case of public projects not to follow the system of maximisation of economies. The engineering aspects of projects have up till now pre-dominated over the economic aspects. While the engineer is necessary and indispensable for the actual construction of a given project and for the technical aspects of the investigations of these projects, it is the economist alone who can weigh the relative merits and demerits of outlay on various projects in a given State or of the relative distribution of emphasis in the case of different measures contributing to the same result. From a national point of view, the Central Government has a direct stake in all irrigation or power projects. The Central Government, apart from directly assisting several multi-purpose projects, provides large-scale grants to the State Governments for financing irrigation projects. The country expects that in view of all these efforts there should be the largest addition to acreage as well as production of more crops, particularly food. Unfortunately we have in our country a tendency to be satisfied by small efforts. On account of the considerably large emphasis that the Commission has placed on irrigation and power projects, and on account of the possibility that in future also we may have to continue the same emphasis on such projects, is not the time appropriate for undertaking a comprehensive investigation in respect of the potentialities of economies that can be attained by a redistribution of resources as well as by shifts of expenditure so that the marginal principle described earlier is brought into full play?

Crop Planning

Another problem of equal importance is the appropriate pattern of distribution of crops in the different regions of the country. For a discussion of this issue we shall for the time being exclude the price aspect. In a large country like India there are considerable variations in the capacity of different types of soil to yield different crops. For example, it has been clearly demonstrated that regions in the Deccan and in South India would be in a position to produce larger quantities of sugar-cane for a given acreage of land than regions in Uttar Pradesh or Bihar. Under a system of optimum distribution of crops, sugar-cane would have been cultivated in larger quantities in the Deccan, and in South India. In spite of this, the leading States growing sugar-cane are Uttar Pradesh and Bihar. If we apply the principle of comparative advantage, so that Uttar Pradesh and Bihar shift towards the cultivation of paddy, and the Deccan and the South divert part of their acreage for the growth of sugar-cane, the community's production of sugar-cane as well as of paddy would increase. For a certain defined acreage, larger results would be obtained. The free play of market forces will not necessarily lead to the optimum pattern of crop distribution as has been indicated in the case of the cultivation of sugar-cane in Uttar Pradesh and Bihar. On account of the faulty system of crop distribution, the community is losing considerable quantities of additional crops, a mistake which could be rectified if scientific crop planning is resorted to. Simmilarly, there is scope for re-distributing the crop pattern in such a way that larger quantities of all the crops can be obtained. The individual farmer tends to consider only the revenue aspect of the crops. He will not be guided by the principle of maximising the social advantages arising out of an optimum corp pattern. It becomes therefore necessary to regulate the farmer's activities in utilising his land. Such interferences may be through appropriate variations of price incentives. But systematic crop planning will not necessarily

depend upon variations in price incentives, which may not be advisable under the existing inflationary conditions in the country. The technique of monopoly procurement of all the crops and the adjustment of agricultural prices according to the relative costs of cultivation would create conditions for systematic crop planning. On account of the tendency of the farmers to adjust their crop pattern according to the relative prices of different crops, there has been considerable diversion from food-crops to commercial crops. The social disadvantages arising out of an already existing pattern of crop distribution are being aggravated. If a scientific system of crop planning is envolved with a view to maximising the relative advantages of different areas, the total agricultural production would definitely increase and the gap between demand and supply would be somewhat narrowed. In this connection, it is somewhat strange that the Planning Commission has decided to increase sugar-cane production by about .5 million tons in Uttar Pradesh and Bihar. It is surprising that there is no provision for increase in sugar-cane production in Bombay, Madras and Mysore. It may be noted that repeated investigations have shown that Bombay, Madras and Mysore are relatively more fitted for cultivating sugar-cane than Uttar Pradesh and Bihar. The Commission points out that crop planning would be difficult under the existing conditions, but would it not have been preferable not to aggravate the existing deficiencies ? Perhaps the Commission thinks of detailed crop planning, which may be difficult. The general crop planning suggested above does not seem to have been considered.

Intensive Development Areas

As pointed out earlier, the resources of finance and materials were distributed widely over differnt districts in the Grow More Food Compaign. As a result of such dispersal, which was not related to the capacity of different areas to absorb assistance and to contribute additional output, the resources spent on the campaign did not yield the

maximum results. Moreover, risks due to seasonal factors, the existence of uneconomic holdings, the absence of a suitable administrative machinery, the lack of equipment and finance, the low productivity of the workers and deterioriation of soil fertility and other factors, more or less of a long-term character, retard agricultural development. The Planning Commission has, therefore, suggested that every State should draw up a programme of work for bringing certain areas, one after another, under intensive development. Since additional production is the most urgent objective those areas should be selected, where, on account of irrigation facilities or assured rainfall, additional efforts are likely to produce the most substantial results. In the selected areas the programme of agricultural development has to be part of a wider programme covering every aspect of rural development.

The Planning Commission has not given a detailed analysis of the concept of intensive development. It is, however, commonly believed that if agricultural production is to increase, efforts on several fronts are necessary. But in this connection it must be noted that State assistance takes certain defined forms, *i.e.* supplies of finance, seeds, manures, fertilisers, agricultural tools and materials, construction or repair of wells, tanks, etc. It should be obvious that different regions in a State may be deficient in different respects. In some places the main deficiency may be that there is no adequate supply of water. In some others, the supplies of manures and fertilisers may not be sufficient. Similarly, some regions may not have adequate supplies of tools and materials. Under these circumstances, the maintenance or an increase in the level of agricultural production depends upon the extent to which the respective deficiencies of different regions are made good. Over-concentration of the same form of assistance in a given region will not lead to as great an increase in output as would have taken place, if the assistance had been dovetailed according to the individual needs of the different constituent units in an area.

The main deficiency in the G. M. F. Campaign was that assistance was not distributed in such a way that the extent of response could have been maximised. A planned distribution of assistance has to be based on scientific investigations regarding the extent and nature of deficiencies in different regions and the rate at which the different regions would respond to given quantities of stimuli. For example, expenditure on construction of wells and tanks should be incurred in those regions which can produce the largest quantities of additional output with the given assistance. Areas relatively rich in soil fertility but deficient in rainfall should be selected. In this connection it would be appropriate to assess the potentialities of the different regions in every State and the extent to which production could be increased by the distribution of different types of assistance. The Planning Commission has indicated that those areas should be selected, where on account of irrigation facilities or rainfall, additional effort is likely to produce the most substantial results. It is doubtful whether this can be the only criterion. A more appropriate method would be to concentrate on those areas where there is scope for additional production. Areas assured of adequate water supply or rainfall may not necessarily have the largest potentiality for additional production within a given period. As the quantities of resources that can be diverted for development are limited, it is necessary to utilise the resources in those areas where the largest quantities of additional production can be obtained, irrespective of the fact whether the areas have adequate water facilities or not. What is of importance is to take all relevant factors into account before arriving at a decision.

Welfare Significance of Government Assistance

Another issue that is relevant in this connection is that the Commission in suggesting the basis for the selection of areas, which are to get various types of assistance, have generally tended to ignore the requirements of those

regions which are at present less developed. For example, the Commission wants assistance to be concentrated on regions possessing irrigation facilities or those which are assured of rainfall. In its discussion on rural reorganisation, the Commission has suggested that Registered Farms and Co-operative Farming Societies should be given preference in the distribution of Government aid. It is therefore obvious that the needs of the less organised as well as the less developed farms will not get a priority. The Commission has also given its approval for the construction of local projects, provided finance is forthcoming locally. It is those regions which are already well-developed and which have abundant resources, which are to become eligible for benefits arising out of Governmental assistance. It is opined that this will aggravate the inequalities in the levels of economic development. Should not Government assistance be diverted towards those regions which are relatively underdeveloped ?

From the superficial point of view, it would appear that the Government should concentrate assistance relatively on those regions which are less developed, as such a policy would be in accordance with the needs of social justice. But the important issue is the selection of areas which would contribute the largest increases to production for given amount of assistance. In this process it may happen that some regions already well developed may be selected for Government assistance. On a deeper analysis it will be found that the claims of social justice will not have been neglected. For, while discussing the suitability of different areas for Government assistance, it would be appropriate to keep apart the effects on production and on distribution. Let us assume that there are two regions for which assistance may be alternatively distributed. If a given quantum of assistance is utilised on region A, the additional output, for example, may be 100 tons in a given period. If the same assistance is utilised for region B, the addition to production would be 60 tons. Let us assume that region A

is already more developed than region B. From the point of view of social justice, it might appear that the assistance should be concentrated on region B. By doing this, the members of region B would become wealthier by 60 tons. At the same time, if the assistance is concentrated on region B, from the point of the community 40 tons of production will have been foregone. Under these conditions if the assistance is utilised for region A, the community will get 40 tons of output in excess of what it would have got if region B had been assisted instead. The income arising out of this additional production would be sufficient to compensate for the potential loss in income that region B has to undergo on account of our preference for region A. It is in this sense that attention on production aspects and the concentration of resources on regions having larger potentiality for additional output, would benefit the community as a whole, and if proper redistribution measures are undertaken, even regions at present relatively depressed can be looked after.[1]

Single-purpose vs. Multi-purpose Projects

The Planning Commission has suggested that a considerable portion of the resources should be spent on the construction of multi-purpose projects. To some extent, the Commission had to give sanction to several of these projects which had already been started. As the outlay on these projects forms a significant portion of the total resources available for development, and as the community has a large stake in quicker and larger production, it may be appropriate to emphasize the distinction between backward and advanced countries in the planning of multi-purpose

1. Similarly, while locating new industries it might be advantageous during the transitional period to make the best of the existing economies and to divert resources for decentralisation only after the country has attained a certain modicum of economic development. The outlook on location, therefore, may have to undergo certain alterations, if we keep in mind the pressing need for acceleration of economic development.

projects. As is obvious, the term multi-purpose project indicates that the project is to serve several purposes. For example, the Damodar Valley Project will provide irrigation, electricity, navigation and flood control. If attention had been concentrated only on irrigation, the expenditure would have been less. But some more additional expenditure would yield additional benefits by way of navigation as well as electrical energy. It is in this sense that it is held economical to utilise resources on multi-purpose projects. But the important criterion is not what a multi-purpose project is likely to produce, but what are the products that are foregone? For example, irrigation is a pressing necessity for the community. Now, those areas, wherein such projects are constructed, may not have additional resources which can be utilised for purposes of, let us say, industrial development with the aid of electricity to be generated in the area. The conversion of a single-purpose project into a multi-purpose one is based on the assumption that the additional output involved would be justified by the industrial development that would take place. In a backward country it does not necessarily follow that industries would be established of their own accord because electricity is made available along with irrigation. Moreover, to the extent that the basic factors continue to be inelastic in supply, one cannot be certain as to whether even subsidised establishment of industries would be economical from the point of view of the community. Unless a community has large resources which are automatically drawn towards areas having some advantages in respect of location, it would be difficult to envisage simultaneous development of industries in areas which are covered by the multi-purpose projects. In the case of the United States, the construction of the Tennessee Valley Project automatically led to the utilisation of the unharnessed resources in the region. There was plenty of private capital, as well as other materials, which flowed to the Tennessee Valley Region as soon as the initial retardatory factors were removed. Are we correct in assuming that the rest of the country does have large-scale potential

capacity to divert resources to the regions served by multi-purpose projects? If this is not true, then the additional outlay on such schemes would tend to be uneconomical *ex post*. Secondary investment will not be forthcoming on its own. For a number of years many of the electricity producing plants in India had to be content with only partial utilisation. It is only gradually that demand kept pace with supply. How far therefore would it be wise on the part of the Government to think mainly of multi-purpose projects ignoring the alternative advantages that could be derived by the community, if the resources were diverted to some other fields? In this connection, we may suggest that irrigation projects may be so constructed as to provide a sufficient base for starting of electricity plants in the regions at a later stage, if necessary.

Location of Irrigation Projects

It might appear strange that in a Plan which has decided to devote 30 per cent. of its resources for irrigation projects, there should be no discussion on the problem of the location of irrigation projects. By location we do not refer to technical conditions which determine the site for the irrigation dams. From the broad point of view, we refer to the location of irrigation projects in those areas, which have a relatively larger soil fertility. If the total amount of outlay is given, maximum results are achieved when the outlay is distributed in those areas which have relatively larger potential capacity for increasing output. Different parts of the country have different potential capacities for responding to defined quantities of assistance in terms of assured water supply. For example, it is well-known that parts of Bijapur District have a potential capacity for producing relatively large quantities of agricultural output, provided adequate water supply is

available. This is indicated by the bumper harvests that are reaped when rainfall is adequate. Scientific investigation will indicate the potentialities of different parts in this respect. An appropriate irrigation policy should seek to concentrate the resources in some of these regions to the extent that technical conditions warrant the construction of irrigation projects in these areas. In many cases, water may have to be provided through long distance canals from irrigation projects constructed on rivers, which may be somewhat away from the regions having large potential capacity. It is possible to work out scientifically the relative costs and benefits. The policy in India, on the other hand, has been to seize upon any given opportunity for construction of irrigation dams and to calculate the additions to output, irrespective of the potential capacity of regions excluded from consideration. The construction of the Damodar Valley Project, for example, may be estimated to yield additional agricultural output of a certain quantity. By itself this will not indicate that the outlay on the project has been appropriate. What would have been the contribution of the resources, if they had been utilised on the construction of projects in areas which had larger potential capacity for additional output ? It is in this sense that the fundamental principle of economic cost should be understood. Costs and benefits should not be related to any given project only. Any given outlay can be considered to yield maximum results only when it is shown that the same outlay could not have yielded additional output in some other regions. Unless it is scientifically established that the different regions of the country do not have a capacity to produce larger quantities of output than the region under consideration, then only can the outlay be justified. It is in this context, that we urge the need for detailed investigations from a Central authority for the allocation of resources from the national view-point.

XIII. PRICE POLICY

Introduction

When a backward economy tries to achieve a rapid pace of development by means of a deliberate programme largely under state initiative there are bound to be heavy pressures on the limited resources of the community. If we also assume the existence of a high inflationary potential in the economy over and above an existing high price level, the success of any development programme will be conditioned to a major extent by the ability of the state to effectively maintain a system of integrated price controls.

The First Five-year Plan is to be implemented under the background of heavy inflationary pressures in the economy. There is an acute imbalance between the rate of increase in monetary expenditure and the rate of increase in output of goods. We have been still suffering from the inflationary potential released during the War period when large-scale expansion of currency took place in the country. Owing to the existence of a certain amount of initial elasticity in the productive system as a whole, in spite of the large-scale increase in monetary expansion during the War period, the price level at the end of the War had not gone up beyond 2½ times the pre-War level. But on account of the rigid control over the prices and the system of rationed distribution of goods, there were, however, large-scale accumulated balances with individuals. During the post-War period, the Government did not follow a disinflationary policy but concentrated on expanding productive activities. A number of large schemes were planned both by the Central and the State Governments. There was an increase in the monetary outlay on account of the activation of private balances and also on account of the expansionary policy followed by the Government, the net result being a further rise in the price level. But the most serious jolt to the price programme was given, when the Government adopted

a policy of decontrol in respect of important commodities. Prices went up in a staircase fashion and speculative activity became rife. Instead of investment in capital intensive projects, a number of businessmen indulged in speculative activity in commodities. By the time the Government decided to reintroduce controls, the price level had already gone up by about a hundred points. The stockpiling programme of the United States and other countries and the continued uncertainty in the international situation coupled with the favourable trend in respect of our balance of payments have resulted in giving an additional upward push to the price level.

Not merely is the general price level relatively high compared with the pre-War and post-War period, but there is also a great degree of disproportion between the prices of different commodities, some of them capable of being alternatively produced with the aid of the same resources. The problem, threfore, is not merely one of combating the general increase in the price level, but also one of bringing about a certain degree of balance between the prices of different commodities. The price policy that has to be followed whenever a planning programme is to be implemented is crucial in determining whether the expectations of the planners will be fulfilled or not. To the extent that the inflationary pressures are allowed to continue to have their sway and to the extent that there is disproportion between the rates of increase in the prices of various commodities, there are bound to be upsets and disappointments in respect of the actual schemes included in the Plan. Not merely would the entire Plan be not completed, but it will also become uncertain whether any significant advance in development can take place at all ? It is in this context that we have to examine the recommendations of the Planning Commission in respect of the appropriate price policy to be followed during the period of the Plan.

The Commission's Analysis and its Recommendations

1. Planning in the public as well as in the private sector is only possible if a reasonable stability of prices and costs can be assumed. A change in price relationships affects distribution of resources in several lines. It does not mean merely a mechanical revision of the estimates; it changes the very perspective of the plan. It is therefore necessary to have a price policy which secures allocation of resources in conformity with the objectives defined in the Plan.

2. As inflationary pressures continue to operate in the economy, it is necessary to improve upon the existing system of controls, to put an effective check on the general level of prices and also to maintain a balance between the sectional price levels. The Commission makes out a strong case for a system of co-ordinated controls. The conditions for the smooth functioning of an unregulated economy do not exist at present and the social responsibilities of a modern State just cannot be discharged without the aid of controls. It warns against the formulation of an approach misled by the volume of opinion against controls. The opinion of the public against controls reveals that different sections of the community are opposed to different controls mainly from a limited point of view. The lay citizen cannot view the problem in an overall perspective. The adverse repercussions of control warrant caution in the adoption of measures of partial or complete decontrol. The very existence of black-markets indicates the presence of disequilibrium between demand and supply. A substantial reduction in black-market prices and the availability of ample supplies at controlled prices are essential pre-requisites to any consideration of decontrol. But if prices are to be stabilised below the present level, increases in supplies should be of a still large order.

3. The basic requirement of price policy is the effective regulation prices of foodgrains. This is not possible unless

the prices of competing crops are regulated. The aim of policy should be to maintain parity in the relative prices of different crops. Prices of commercial crops should be prevented from going up.

4. The Commission rebuts the view that when an increase in domestic production is necessary and higher prices are being paid for imported supplies of commodities, the domestic producer should be given the benefit of higher prices.[1] Domestic production is a function of relative profitability as compared to the alternatives open to the producers. Any increase in the prices beyond a reasonable level would be in the nature of windfall. Money incomes will be increased and inflationary forces will be strengthened. The proper policy for bringing about an increase in food production is through a reduction in the prices of competing crops rather than through an increase in food prices.

5. The working of individual controls should be matter of continuous revision and adjustment. There is scope for a variety of arrangements. But each control should be viewed as part of a system and the objectives of curtailing inflationary pressures and the maintenance of appropriate relative prices should be achieved. The Commission has suggested that it would be necessary to take into account the structure of relative prices that has already been evolved and the extent to which it can be altered through controls. When once the targets have been fixed, the incentives must operate so as to facilitate their achievement. The maintenance of parity amongst prices of different agricultural commodities, and between agricultural prices and those of manufactured goods necessitates continuous revision of control policy. A Price Advisory Council should be appointed to formulate appropriate policy in the sphere of prices and controls. The Commission has recommended

1. For a criticism of the Commission's views in this respect see the Appendix to Section XIV.

improvement in the administration of controls and the adoption of measures to get public support and co-operation. Distribution of controlled articles should be arranged through co-operative institutions and anti-social activities should be stamped out.

6. The country has to choose between a reduction in the present level of consumption or a reduction in the scale of investment. A choice will have to be made between immediate tensions or avoiding a more serious situation in the future. A high level of investment expenditure is absolutely necessary from the point of view of maintaining long-term stability in the economy. Such expenditure will not show immediate results, and therefore inflationary pressures will be accentuated. The Commission, therefore, concludes that it is not possible to reduce long-term expenditure to a level at which a disinflationary fiscal policy can be pursued.

7. The objective of monetary policy should be to encourage the flow of savings and to discourage socially undesirable or economically less urgent investments. The powers of the Reserve Bank should be used to prevent bank credit from going to speculative channels.

8. An economy faced with persistant shortages needs a large import surplus. The releases from sterling balances should be fully utilised. An improvement in the export earnings should immediately be followed by relaxations of restrictions on private imports, especially on commodities entering into the cost of living or the cost of production. If foreign aid is available, sterling balances should be used for importing consumer goods so as to bring down domestic prices.

9. Export duties should be levied as part of a general anti-inflationary policy with scope for constant adjustment. Export duties should be utilised to subsidise imports of essential commodities.

The Problem of Relative Prices

In analysing the implications of the acceptance of a particular structure of price controls and in deciding upon the adoption of an appropriate price policy, it is necessary to distinguish between the problem of relative prices and the problem of the general price level. The structure of relative prices should be examined keeping in abeyance the influence of monetary forces. It is the structure of relative prices that allocates resources. In a community, wherein the prices of all commodities are not controlled, there is a natural tendency for the utilisation of resources in the production of uncontrolled commodities. Under ordinary circumstances, if there is no price control on any commodity whatsoever, the structure of relative prices will be so adjusted as to meet the requirements of the community. When, for example, the prices of cereals are controlled, and the prices of alternative commodities which can be grown on the same piece of land are allowed to be determined by free market forces, the farmer will naturally have a tendency to utilise his land for growing that commodity which is relatively more profitable. If there was no price control on cereals, the shifting of land towards the production of commercial crops would have automatically led to an increase in the prices of cereals, whose production would have gone down as a result of the diversion of land. This would lead the farmer back towards the production of cereals. Such adjustments are very painful and in the transition period lead to considerable hardships for the vulnerable sections of the community. It is also difficult to restrain the impact of monetary forces during the period of adjustment. Moreover, when price control over cereals is absolutely necessary from the point of view of preventing the general price level from going up, we cannot allow the market forces to determine the relative distribution of resources for the production of different commodities. This is why conclusions, which tend to overemphasise the importance of foreign exchange earnings arising out of the larger production of

commercial crops, tend to ignore the handicaps of controlled commodities in drawing appropriate quantities of resources towards their production.

It would be, of course, on the face of it inaccurate to contend that changes in the relative prices would necessarily aggravate inflationary pressures. In this case, we have to keep in mind the impact of the altered distribution of incomes on consumption. When there is a transfer of incomes towards groups who tend to utilise the addition to their incomes for purposes of speculation or for consumption, whereas in the hands of the groups from whom the incomes have been transferred, the money would have been utilised for augmenting the savings of the community, the price variations causing such changes in the distribution of incomes lead to additional pressures on the limited stream of consumption goods.

If monetary factors are allowed to exert their influence to bring about changes in the structure of prices or if monetary factors enter into the picture when the productive system is trying to adjust itself to the impact of changed demands, then the problem of the relative price structure gets intermingled with the problem of the general price level. If speculative purchases of commercial crops is rendered possible by means of the utilisation of accumulated cash balances or of bank credit, an additional burst of demand for some commodities is created without there being any corresponding reduction in the demand for some alternative commodities. It is in this context that the lack of an appropriate monetary policy as well as the existence of a system of partial controls have lead to distortions in the productive structure, with the result that the distribution of resources in different fields does not satisfy social priorities. We shall discuss the implication of this statement particularly with reference to the diversions of acreage in the section on food policy.

Efficiency of the Mechanism of Price Control

While studying the problem of relative prices it is necessary also to focus attention on the factors which determine the efficiency of control mechanism. As this problem has not been given due importance, it may be appropriate if we outline the principles that have to be borne in mind when instituting price control. (i) If the price control policy is to succeed, there must be a uniform policy all over the country. This means that price control must extend to all regions and areas simultaneously If prices of a commodity or product are controlled in one State and not controlled in another, there is room for smuggling and for large scale movement of goods from the controlled regions towards the regions where there is no control or where the working of the control mechanism is relatively less efficient. From this it follows that all measures and regulations as well as announcements pertaining to control of the prices of any commodity must emerge from a Central authority. (ii) In order that price control should be effective, there must be sufficient measures undertaken to supply the controlled commodity at controlled prices, and in required quantities to the consumers. If the Government contents itself by fixing the prices, without undertaking measures to see that the consumers are supplied with the commodities at the stipulated prices, there will be large scope for black-marketing as well as hoarding. In the case of commodities for which the supplies in the community are sufficient to meet the demand, the Government may be content with mere price fixation, at the same time equipping itself with some quantities of stocks. But if the demand for a commodity at the controlled price is in excess of the available supply, then the Government may have to introduce price control along with the commandeering of stocks. In cases where the aggregate demand for the commodity is much larger than the aggregate capacity of the community to provide the same, or, in other words, where there is a significant gap between the needs and the supply, the Government may

have to procure the commodities and to introduce a system of rationed distribution. This becomes necessary in the case of commodities which are essential for life and wherein, in the absence of rationing, there is an opportunity for hoarding on the part of traders and for large scale purchases on the part of high income groups. This happens when even the potential supply available according to rationed distribution is less than the requirements of families who can afford to spend additional amounts on the commodities, provided they are available, (iii) In the case of commodities wherein the Government bears the major responsibility for equitable distribution to consumers, it becomes necessary for the Government to be also the monopoly procurer of the commodity, as for example in the case of food. But in the case of a backward economy the problem of shortages concerns every commodity. In India there is a large gap between aggregate demand and aggregate supply in cotton, jute and cereals. If the Government introduces a system of monopoly procurements at stipulated prices for cereals, and does not adopt similar measures for the alternative commodities which can be grown with the aid of the same resource, *i.e.* land, there is a natural tendency for the diversion of the resources from utilisation in the production of the controlled commodity towards that of the uncontrolled commodity. It is not enough if mere price control is instituted in respect of the alternative products that can be produced with the aid of the same factor of production. To make the control system effective, it is necessary to introduce a procurement system for all the commodities that can be produced with the aid of a given factor. Procurement should go along with rationed distribution. This is necessary due to the possibility of large scale hoarding on the part of traders as well as consumers, if divergent policies are followed for different commodities. (iv) Whenever a commodity has to go through various stages before it can be finally consumed, control, to be effective, must extend with the same rigour to all the stages. When a commodity is a raw material in the manufacture of a product, it is not

enough to control the prices of the product, at the same time permitting variations in the prices of the raw material. For example, price control should be equally effective in the case of unginned cotton, ginned cotton and cloth. Further, when the same resource is used in the manufacturing of different products, unless price control extends to all these products, the manufacturers will tend to shift their production towards the product whose price is not controlled. (v) In a similar manner, when price control and rationing extend to a few commodities, and the quantities of commodities available through rationed distribution or at the controlled price are not sufficient to satisfy the requirements of consumers, there will be a natural tendency for them to shift their outlay towards the purchase of substitute commodities whose prices are not controlled or which are available in 'unlimited' quantities. As a consequence, prices of the substitutes of the controlled commodity also go up. It is, therefore, necessary to extend price control to all related commodities. (vi) In order to remove the impact of uncertainty and its effects on hoarding and speculation, it is necessary to follow a consistent policy regarding controls. In a country, wherein there is a large gap between supply and demand and wherein the community does not have sufficient productive capacity to respond adequately to the price stimuli, without loss of production in some alternative fields, it is necessary to continue with a system of controls until the productive system becomes, firstly, capable of meeting the aggregate demand in every field and, secondly becomes sufficiently elastic to adjust itself immediately to meet the varying demand. (vii) It is obvious that strong and deterrent punishment for blackmarketing, hoarding or profiteering is a necessary element in the working of the control mechanism.

If we subject the working of controls in post-War India to the above tests, we find sometimes several glaring mistakes in our control policy, as those who formulated the policy were not in a position to understand and analyse the full

significance of the control measures as well as to appreciate the need for proper techniques. Under the assumption that the productive system was elastic to price stimuli, in many cases control was lifted on many commodities, to discover only later that while the productive system would be responsive to this stimuli, the production of some alternative commodity would suffer. As we shall point out in the section on food policy, the Government's aim to achieve self-sufficiency in all the crops is based on a confusion of the objectives and has led to the adoption of mistaken techniques. The Government has retained procurement in the case of cereals. The relative variations in the procurement prices have been much less as compared with the variations in the prices of commercial crops which have been more or less decontrolled. As a consequence of such a policy, obviously the drive for food self-sufficiency has seriously suffered with consequent effects on incentives as well as on foreign trade. It is in this context that we commend the Commission's suggestion for extending the system of price control to commercial crops also. We suggest however, that mere price control would not be enough and some radical measures may be necessary if we have to render the system of price control really effective. In a country in which the power as well as the right to utilise the land for any particular crop is left to millions of private farmers, whom it is difficult to influence, it is necessary to extend the same range of controls in respect of every commodity. This leads, as we shall argue later, to monopoly procurement regarding every crop. It is only then that an integrated policy in respect of different crops can be followed at the national level.

Changes in the General Price Level

Changes in the general price level are a resultant of an imbalance between the rate of increase in monetary outlay and the rate of increase in the production of goods and

services. Monetary outlay might be increased on account of any of the following reasons:—

(i) The consumers might draw upon their accumulated balances, and thus increase the pressure of monetary demand on consumption goods. During the period of war, though the aggregate incomes in monetary terms increase, consumers will be prevented from spending the additions to their purchasing power on goods and services, which will obviously be in short supply, as a considerable portion of the productive resources will have been diverted for the manufacture of goods needed for the war. The Government will have instituted strict price controls, along with a system of rationed distribution of essential commodities. After the end of the war, if controls are lifted or relaxed, the consumers will dishoard their balances to satisfy their pent-up demand for goods and services. The general price level goes up immediately and the productive capacity of the system will not be in a position to keep pace with the sudden increase in demand. In the case of India, up to the end of December 1947, the continuance of a strict system of controls prevented the dishoarding of balances on the part of the consumers. But when the Government lifted controls on important commodities, the individuals, who had been prevented from spending additional amounts on these goods and services, increased their outlay, with the consequence that the price level went up in staircase fashion. By the time the controls were reinstituted, the price level had increased by nearly hundred points.

(ii) The Government may follow an expansionary policy in respect of investments and cause an increase in monetary outlay by offering opportunities for additional employment. The financial resources for the Government's additional expenditure for payments made to the employees might take the form of the dishoarding of accumulated cash balances of the Government; or the Government might get control of increased financial resources by following a policy

of expansion of currency. This may happen when the Government directly expands currency, or when its borrowing programme fails and the Central Bank supports the Government securities by large-scale lending to the Government. An increase in the rate of outlay on investment in a backward economy, will increase the monetary outlay, at the same time, not leading to any increase in the rate of production of goods and services. In the case of India, the Government of India as well as the State Governments have continued to draw upon the cash balances which they had accumulated during the War. In some cases, the Governments got access to financial resources by transferring to the Reserve Bank the securities in their investment accounts. The Reserve Bank has also supported the loan programme of the Central Government by purchasing Government securities on a large-scale, as the response from private investors fell woefully short of expectations.

(iii) The private investors might dishoard their accumulated balances and utilise them for outlay on investment. For example, during the period of the War a number of industries in India were in a position to make large-scale profits. These resources could not be ploughed back to industry on account of limitations in the supply of capital goods and also on account of Government control, which prevented the flow of resources towards private investment. After the end of the War, import restrictions were relaxed and private investors were in a position to increase the rate of outlay on investment by the expansion of existing industries or the starting of new industries. As there was considerable lag between the flow of output and the outlay on investment, in the transitional period, the increase in the rate of investment financed by dishoarding of past balances, led to an increase in the price level.

(iv) The Government or the Central Bank may permit or initiate an expansionary monetary policy and thus allow the banking system to increase advances and grants, so that

the rate of private outlay on limited quantities of goods, either for investment purposes or for consumption purposes, might be increased.

(v) Traders and businessmen or even industrialists might utilise their accumulated balances, or the credit granted by the banks, or the resources released through sales of securities, for speculative transactions in goods in short supply, with a view to making capital gains, in the expectation that the prices of goods would tend to increase. During the post-War period in India, the financial resources of traders and businessmen, who were in a position to increase their incomes during the War period, have been continuously diverted for purposes of speculative activity. This may be partly due to shortages in the supply of capital equipment or the disincentives associated with long-term investments. The lifting of controls and the non-pursuit of a disinflationary policy by the Central Bank, were also responsible for increasing the flow of resources towards speculation.

Perspective for an Anti-Inflationary Policy

When we deal with the background situation in a backward country, we should note that from the point of view of the impact on the price level there is only slight difference between outlay on consumption and outlay on investment. Outlay on investment will generally take the form of purchases of capital goods and basic constructional materials. Secondly even if the investment is completed and a new factory comes into being, increased production of goods is conditional upon the supply of raw materials. But to the extent that there is no change in the output capacity of the system, an increase in the rate of investment outlay resulting in additional employment leads to increased pressures on the limited stream of goods. From the point of view of analysing the entire situation, we have to take note of the production side of the picture also. In a

backward community there are very serious limitations for bringing an immediate increase in the production of goods and services. In the case of India, large-scale outlay on consumption goods and services will not lead to increased production of these goods and services. Increased demand for cereals for example, will not lead to increased production of foodgrains until the agricultural capacity of the country increases, which means that a long time lag has to elapse. An increase in the demand for cloth will lead to an increase in prices of cloth. At the same time it might lead to an increase in the production of raw cotton at the cost of cereals whose production would be curtailed. Autonomous forces will not lead to an increase in agricultural investment on the assumption that the price incentive will stimulate output in the long run at least. The important factor to be remembered is that the ability of the community to produce more of every good in short supply is extremely limited. Unless there is an all round increase in technical efficiency or the productive capacity of the system increases in every sphere, it is difficult to envisage a radical improvement in the production side of the picture. An anti-inflationary policy, therefore, must pay greater attention towards restricting the consumption pressures in the economy. It is only when resources are diverted from utilisation in the production of consumption goods and services towards production of investment goods, that there will be ultimately an increase in the productive capacity of the system creating a situation, wherein more of every consumption good can be produced. But during the transitional period, it is necessary to keep down the consumption pressures and to divert limited productive resources to socially desirable investments.

In the case of India, there have been many complicating factors. For example, the Government as well as the Reserve Bank have not fully succeeded in curtailing the impact of speculative activity. Speculative activity directed towards goods in short supply leads to a reduction in the quantities

of goods available for meeting the consumption demand, inasmuch as in the expectation of higher prices at a future date, producers, as well as traders, would tend to hoard stocks of commodities. At the same time as speculative activity has been more or less financed by utilisation of private accumulated belances or by way of bank credit, the outlay on purchases of goods and services has not been counterbalanced by a decrease in the outlay on some other commodities. There has, therefore, been a net increase in the demand for goods in short supply. This, along with the excitement that is associated with speculation, and the tendency to exaggerate the range of price rises, has led to serious distortions in the productive structure encouraging the farmer to substitute commercial crops in place of food crops. As pointed out earlier, the situation was aggravated by the opportunities provided for the hoarding of commodities by traders and businessmen.

Measures to Check the Price Level

It is, therefore, very necessary in the first place to put a check on speculative activities which lead to large-scale price increases, distort the productive structure, and cause hardships to the vulnerable sections of the community. If the Government had followed a bold monetary policy immediately after the termination of the War, it could have cut at the root the sudden spurts of speculative activity that have characterised the post-War situation. The banking system can only exercise a limited control in this field, for a good portion of the speculative activity has tended to be financed by means of accumulated private balances, which were not kept with banks to avoid discovery of tax evasion. In this connection, the suggestions made earlier regarding the taxation measures to prevent a recrudescence of such activities becomes relevant.

In the second place, the Government might have to reconsider the issue whether the rate of investment envisaged

both by the public as well as the private sectors is commensurate with the rate of supply of resources. In the case of an economy like ours, it is unfortunate that there are all sorts of difficulties for augmenting the rate of investment. Moreover, an expansion in monetary incomes generated on account of increased employment creates additional consumption pressures, particularly when the expansion in investment is not financed by a flow of real savings, which would mean that corresponding to the increase in monetary demand there has been a decline in demand somewhere else in the system.

The problem of the price level is two-fold. In the first place, all efforts must be made to prevent it from going up and in the second place efforts should be made to bring it down. The first requires a careful watch on all activities which lead to the generation of increased pressures on the limited stream of goods. In other words, the outlay on the various types of investment must be equal to the volume of real resources, that can, or can be, saved by the community. At the same time the Government must put a check on all measures which directly or indirectly increase consumption pressures. The Government's investment activities should as far as possible be financed only by a transfer of resources from individuals. This means that the Governments, which have embarked on policies leading to losses of revenue, must revise their scheme of priorities. In a similar manner, all welfare measures which seek to augment the pressure on consumption must be postponed for a considerable period, until the community is in a position to afford the additional increases in consumption demand. There should be no effort to pay compensation for zamindari abolition in cash. The hidden expansion of currency that takes place on account of the support extended by the Reserve Bank to the Government securities must stop, nor should the State Governments or the Central Government itself obtain resources by sales of securities to the Reserve Bank. The investment policy of the Government, in order to be anti-

inflationary, *must* be financed by real savings. At the same time, a system of intensive price control should be instituted in the case of all important commodities entering into the cost of living. Stringent measures should be taken to prevent artificial shortages which cause an undue increase in the price level.

At the same time efforts should also be made to increase the output potential of the system. It must be remembered that from the point of view of restricting the future pressure on consumption demand, the Government may have to adopt ways and means to check the impact of forces making for increases in such demand. This means that a positive population policy is also a vital link in the attack on the price level. As pointed out earlier, the community faces the prospect of diminishing quantities of resources for diversion towards investment in future years, on account of the continuous increase in the population. Further efforts should also be made to prevent standards of consumption expenditure from being stabilised at a high level. An increase in money income should not be allowed to be reflected in the form of increases in consumption standards. This means that an austerity programme is also a necessary part of the attack on the price problem.

The Problem of the Rate of Interest

It would be beyond the scope of the present book to discuss the question of the appropriate interest policy that should be followed with a view to keeping down the price level. The problem of the rate of interest concerns not merely the rate of interest charged on the advances of the Reserve Bank or of the commercial banks. An expansionary investment policy in monetary terms in the public sector, has been rendered possible in India, owing to the system of grants to the State Governments and the low interest charged on the advances to the States. The State Governments formulated a large number of schemes on the assurance that

the Central Government would supply them with the necessary finances. The different departments of the Central Government also worked on the assumption that liberal supplies of finance would be available. This type of expansive planning was sustained for some time owing to the large accumulated balances of these Governments. Under normal circumstances, it would not have been possible for the Government to have planned for such a rate of monetary outlay on various measures, if they were dependent upon supplies of resources from the public. As the supplies of savings were limited, the Governments would have had to pay larger rates of interest to get access to increased savings. This would have meant that several of their investment schemes would have been automatically curtailed. The rate of monetary outlay would have been conditioned by the rate of availability of savings. A similar analysis is applicable to the case of the investment activities of the private sector also. On account of the pursuit of a cheap money policy, and the continued expansion of currency, combined with the existence of accumulated balances, the rate of interest could not have acted as a brake on the level of activity. In some respects, it must be stated that on account of the lack of appreciation of the nature of the factors involved, the Reserve Bank also did not follow an appropriate monetary policy. While an expansion in monetary outlay on investment gives the illusion of an increase in the rate of capital formation, so long as the real resources of the community that can flow towards investment are limited, and an increase in the rate of supply of these resources cannot be envisaged without a corresponding decrease in consumption pressures, it would be incorrect to think that the rate of capital formation in real terms has, or will, actually increase, merely because the rate of monetary outlay has been, or will be, stepped up. Under these conditions, it would be appropriate to revise the interest rate policy so that only that rate of investment that can be sustained by the aid of transfers of real resources is undertaken by the community. Further, if proper attention is

devoted towards the rate of interest in calculating the cost of projects and in choosing among them, only those forms of investment will be undertaken which will tend to increase relatively large quantities of output or add more to the productive efficiency of the economy.

External Factors and the Price Level

The Commission has not given due attention to the problem of tackling the inflationary pressures that would be exerted on account of the unfavourable trends due to increases in the prices of commodities and materials which we import. The Commission has suggested that when the prices of imported commodities increase, the Government should follow a policy of import subsidies with the help of the levy of export duties. This view is based on the assumption that at the same time that the prices of the commodities which we import increase the prices of the commodities which we export will also increase so that the Government can divert to themselves the difference in prices by leving export duties. If this occurs, then there is a possibility that the revenue derived from export duties would balance the increased cost of imports. We cannot accept that this asumption can be treated as feasible, though it is true that during the last two years, the Government has been in a position to increase its revenue by export duties on jute manufactures, oilseeds, spices and coal. To a large extent this has been due to the extremely favourable demand for jute manufactures owing to the stepping up of the stock-piling programmes of countries like the United States. It may be noted that for some time the Government did not utilise the opportunity to increase the scale of export duties on jute goods and permitted trade interests to reap windfall gains. How far are we correct in working under the assumption that we would be in a position to maintain high export duties without injuring the demand for jute goods ? It is true that India possesses nearly 60 per cent. of the jute loomage of the world, but to the extent that the

prices of jute goods are pitched high, there is a possibility that the manufacturing capacity in the rest of the countries would be increased. As India does not hold the monopoly position in the production of raw jute, and as Pakistan would be in a position to supply the rest of the countries with the needed quantities of raw jute at perhaps favourable prices, our foreign competitors might expand the production of jute goods by increasing their loomage capacity. Secondly, the continuance of high prices in jute goods would gradually facilitate the increased utilisation of substitutes like cotton and paper bags. This tendency may tend to be aggravated inasmuch as, if the international situation continues as it is, leading countries like the United States would naturally prefer to lessen the extent of dependence on foreign sources for supplies of strategic materials. Moreover, the demand from countries like the United States is subject to severe fluctuations. Owing to these reasons it would not be advisable to plan for the future on the assumption that the Government would be in a position to maintain export duties at the existing level. It is therefore difficult to understand as to how we can assume that export duties could always be resorted to counterbalance the increase in the prices of our imported commodities. Strictly speaking the analysis has to take note of the nature of the commodities which we import, the supply conditions regarding them and the nature of demand for them. India has gradually tended to shift from a primary producing country depending upon exports of raw materials and cereals for earning foreign exchange to pay for the imports of consumer goods. India is now one of the leading importers of cereals and at the same time the export capacity for many industries is partly dependent upon the supplies of raw materials from external sources. An increase in the prices of cereals will directly come in the way of the anti-inflationary policy. The Government of India has been spending large amounts in order to keep the cost of living low by subsidising imports of grain. Food subsidies have emerged as an important item in the Central budget. How far the Government would

be in a position to continue to subsidise imports, if the prices go up, depends upon the extent to which revenue resources can be diverted from other channels. As the dependence for imports will tend to increase in the coming years, if the prices of cereals increase, it will be extremely difficult for the Government to keep down the cost of living. Apart from cereals the two large industries of India, cotton and jute, depend considerably on foreign countries for imports of raw materials. The foreign exchange commitments in the case of raw cotton have continually tended to increase. In the case of jute, production has been below capacity owing to stoppages of supply from Pakistan. Some of our other industries depend on imports for supplies of metals and metal products, plant and machinery, accessories and intermediary materials. An increase in the prices of these commodities will come in the way of their expansion and at the same time create internal pressures making for a rise in the price level. India is largely dependent on imports for supplies of mineral oils. An increase in the prices of oil will come in the way of the development of the transport industries. It is thus clear that any unfavourable change in the external situation leading to the increase in the prices of imported commodities will cause a serious upset to our industrial structure and may lead to an increase in the cost of living. The Government can keep down the pressures, provided that the internal consumption requirements are curtailed and the limited foreign exchange resources are utilised only for purposes of imports of capital equipment and essential commodities. This means that the already low standard of living may have to be further reduced.

It is difficult for any single country to insulate itself from the impact of changes in the external price level and still maintain its standard of living, particularly when the maintenance of the latter depends upon the imports of essential consumption goods as well as raw materials for industry. It is therefore, perhaps inevitable that the country must be ready to reconcile itself with a decline in the

standard of living in the interests of the continuance of the programme of economic development. In the case of India it is not only the existing standard of living that is at stake, but also the very prospect of an increase in the standard of living at a later date. The acceptance of the objective of economic development will perhaps necessitate a far rigorous type of austerity, if we have to maintain even the modest rate of development envisaged in the Five-year Plan. That is why we cannot agree with the Commission's contention that export duties may be resorted to subsidise imports when the prices of imported commodities increase. How far can we be certain that the increase in the revenues by levy of export duties would be sufficient to counterbalance the increase in expenditure commitments necessary to maintain the same quantum of imports when prices of imported commodities increase? It is therefore necessary for us to be aware of the serious nature of the problem and to take precautions for stock-piling important commodities and materials when the trends are favourable. Further, the Government will have to make an intensive effort to find out as to whether the resources for which we depend on external sources might not be produced within the country itself. Even if the effort of exploiting the internal resources requires a time-lag, it would be better to pursue such a course, so that when we find that the external prices have increased, we may be able to carry on by producing the same resources internally.

Revaluation

Some influential sections in the country have suggested the revaluation of the rupee. Revaluation of the rupee would mean a reduction in the volume of foreign exchange required for imports of food, raw materials, equipment and other commodities. Revaluation would also assist in lowering the rupee prices of capital equipment that is necessary for the construction of the various public as well as private projects. We must remember that revaluation would lead to these

advantages only on the assumption that the countries with which India trades do not also follow a similar policy. Of course, to the extent that there is a time-lag between the period when India revalues and the time other countries follow suit, India is bound to have some additional advantages. To the extent that the dollar countries acquiesce in the policy of revaluation adopted by us, revaluation of the rupee would lead to the lowering of the prices of the materials which we import from dollar countries, like food, raw cotton, capital equipment, military stores, newsprint, etc. Revaluation would also lead to the maintenance of a balance between the Indian rupee and the Pakistan rupee. Pakistan, of course, cannot retaliate by an appreciation of her currency, for her trade with other countries would be affected by such a policy. But the revaluation of the rupee would also lead to certain disadvantages in our trade with sterling countries. On account of the increases in the prices of Indian products, the demand from these countries would be shifted away from Indian goods towards the products of our competitors. As a major portion of India's trade is with sterling area countries and as the market in these countries has to be maintained and expanded, the net result of revaluation would depend upon a comparison of the losses of foreign exchange on account of the decline in trade, with the gains in foreign exchange on account of the bettering of our terms of trade with the countries from whom we import goods. If India follows a unilateral policy of revaluation, there is also the possibility that the goods that would flow towards India might be diverted to other countries. Unfortunately, unlike Britain, India is not a predominantly manufacturing country, though some of her export goods are produced with the aid of imported raw materials; nor is India a predominant exporter of raw materials and agricultural products. India is also dependent upon other countries for supplies of basic necessities like food and for the supplies of equipment. We cannot, therefore, be certain of the exact repercussions of revaluation on our

economy which would more or less depend upon the attitude taken by other countries. Anyway the revaluation of the rupee will not lead to any permanent improvement in our trade situation.

Perspective in Trade Policy

The above discussion leads us to the problem of the perspective to be followed in our trade policy. Should we concentrate on the maximisation of the advantages that would be reaped in the short run? Or should we concentrate on long-term stability in respect of trade transactions? Should the foreign trade policy of a country be based on the principle of utilising to the maximum extent the benefits that arise on account of a given environment? Or should the country think in terms of following a trade policy which sacrifices the short-term gains in favour of possible advantages over a long period? Many people would argue that strategic consideration should govern our trade policy, but without venturing on a final opinion in this respect, we would only point out that there is a need for the maintenance of a balance between the various objectives.

To conclude the discussion about relation between the trade policy and the price level, we would emphasize the need for a constant watch on the changes in the external situation. Almost all our trade transactions are subjected to controls. To the extent that the administration of controls is not governed by a consistent economic policy, the internal situation itself would be faced with an atmosphere full of discouragement for production. The operation of trade controls should be subjected to careful scrutiny. In no other aspect is there need for clear thinking and prompt action than in the field of trade. The granting of licences and quotas and the decision on the overall policy to be pursued should be based on an awareness of the trends which change fast. Any delay in the granting of a licence might lead to large-scale losses. A bureaucratic system of management is

most harmful to the country's interests particularly in respect of the control of trade. It is true that the repercussions of changes in the price level due to external factors cannot be subjected to internal control, but the impact of such repercussions might be reduced, if we administer our controls more efficiently. The assumption behind controls is that there exists in the country a mechanism for the efficient and quick administration of controls. To the extent that administration is weak and subjected to delay, the pace of economic development, which more or les is closely related to the reactions in the price level, would be slowed down. In view of this, we would urge that the formulation and implementation of the policy of trade controls should be in the hands of competent persons who have a quick and correct grasp of the complex forces involved in the same, and who could be trusted for prompt despatch with efficiency and integrity. Besides, there should be co-ordination of the work of such officers with that of the Central Planning Authority.

Appendix : Note on Dual Pricing

According to the advocates of the dual pricing policy, it is held that a single uniform controlled price does not provide a sufficient incentive for increasing production. In the second place, on account of the existence of black-markets a good portion of the supply tends to be diverted away from the open market. It is, therefore, suggested that the Government should introduce price control for a certain defined quantity of production. For the rest a free market should be established. If this technique is adopted, the supply now being diverted towards the black market will become available in the open market, and the response from the private sector to produce more will increase.

The dual price policy has been tried in the case of sugar. For purposes of rationed distribution, the Government takes over a major portion of the production from the mills on the basis of a controlled price. The mills are allowed to

utilise the rest of the production for sales at the free market price. Under this system, the Government is able to meet its ration commitments; at the same time, the producers get an incentive to increase the production, in order to utilise the opportunities available for sale at the free market price. The quantities of sugar that were diverted to the black market are now available in the open market. The free market price will be determined by the forces of supply over and above the quota given to the Government, and by the forces of demand, that are not satisfied by the supplies available through the Government rationing system. Naturally the free market price tends to be higher than the controlled price on account of the limitations in respect of production and the continuance of unsatisfied margins in regard to demand.

It is stated that the operation of the dual price system in respect of sugar has led to additional production. But we must remember that in the case of sugar the gap between aggregate supply and demand was not very big; in fact, the crisis in sugar was due more to the manipulation by various parties, which led to artificial shortages than to any distinct disequilibrium between supply and demand under normal conditions. The free market price of sugar continues to be far above the controlled price. If the Government had commandeered all production at a single controlled price, the total quantities available to it would have been less than the total quantities now available to the Government plus that sold in the open market. It is true that the open market price of sugar would tend to be less than the black-market price under a system of complete control. From the point of view of the producers, this system offers scope for larger profits. In cases where marginal costs are very high and the controlled price does not reflect the marginal cost of the largest possible production, there is some scope for the working of the dual price incentive. From the point of view of the consumers, the quota that would have been available if there was com-

prehensive control would tend to be more than what they now get under rationed distribution. The less well to do sections of the consumers would be worse off, as they would not have the ability to buy additional quantities at the free market price. The Government has also to think in terms of the inflationary effects of a policy which gives scope for large profits to producers. To the extent that there is some excess capacity, which can be utilised profitably on account of the opportunity for sale in the free market, the system will add to aggregate production. But to the extent that additional production in one field is at the cost of production in some other field, we cannot be certain that the policy leads to a net advantage. Let us suppose that the area under sugar-cane undergoes an increase as a result of the dual price policy.[1] This may be at the cost of food production. The loss in respect of food will have to be counterbalanced by the gain in respect of sugar, if the policy is to lead to a net benefit to the community.

Moreover, the natural consequence of a dual price policy in one field would be that producers of other commodities would demand the extension of the system to them. The entire purpose of control would be defeated if this happens. At the same time, if the incentive is given for one industry, why should the other industries be denied the same privilege? If sectional interests are to guide economic policy, then woe be to the idea of national planning. So long as the community's productive capacity is inelastic and there are limitations for supplies or raw materials etc. the success of a dual price policy would be limited. On the other hand, due to the increased expenditure that

1. According to the latest reports the tendency which has been supposed to operate in the above illustration has actually taken place. The first forecasts for sugar-cane for 1951-52 indicate that the area under sugar-cane has increased by more than 28 per cent. over the last year's area. This has been declared to be a success for the dual price policy in respect of sugar. But may we ask as to what happens to the area under food crops?

becomes necessary on the part of the consumers to get a certain amount of commodities, there will be a tendency for the cost of living to go up. Ultimately, it is only from the consumers that the additional profits for the industrialists have to come. From the point of view of the morale in respect of controls, the policy would be detrimental in the sense that what the producers or dealers got by way of transactions in the black-market, now become legalised earnings. The psychological effects of such a policy on consumer attitudes are extremely important in determining the extent of enthusiasm and co-operation from the public towards the Plan.

There is one significant advantage, however, in this policy. To the extent that the producers or dealers now get an opportunity to divert towards the open market the supplies formerly being sold in the black-market, the government will be in a position to ascertain the actual profit position in respect of these parties. From the point of view of the tax system, this would tend to give an opportunity to the Governments to get at the large earnings which would otherwise be outside the pale of any control whatsoever. If the Government allows additional earnings by the dual price policy and at the same time takes away from the producers in a lumpsum a certain portion of the additional earnings, it would augment the tax revenue.

It would be difficult to generalise on the dual price system unless we are in a position to know the potential possibilities of increase in production in different industries and how far an increase in one field would be at the cost of the increase in some other field. To the extent that there are basic limitations in the community in respect of resources, ultimately a dual price system may not result in any net additional production at all.

XIV. FOOD POLICY

The Gravity of the Food Problem

The food problem occupies today the centre of the stage in any discussion which pertains to Indian economic affairs. It is being increasingly recognised that unless a proper solution to this problem is found no Plan can be worked with success. The country has been going through periods of acute crises on account of seasonal failures or lack of imports. In fact, during certain months the situation was so bad that several States had to lead a hand to mouth existence, and some had even to face the possiblity of serious internal upheavals on account of the lack of availability of foodgrains. During the post-War and post-Independence years we have been spending a good portion of exchange earnings as well as sterling balances for purposes of food imports.

While the food problem has been more acutely felt during the post-War period, we must not forget that even prior to the War and even during the first few years of the War, India was dependent on imports of grain to meet her internal needs. With the separation of Burma internal supplies were reduced by about 1.3 million tons. The Partition also added to the gravity of the problem. We used to obtain approximately .80 million tons of cereals from the territories now in Pakistan. The dependence of Indian agriculture upon the vagaries of rainfall was rendered more acute with the loss of Punjab and Sind, wherein most of the agricultural land was provided with irrigated water supplies.

The food problem has become so acute not merely because of the loss of certain areas. It has been gradually realised in all quarters today that the food problem should be viewed as one aspect, albeit the most important one, of the increasing pressure of our growing population on the productive capacity of the land. If internal supplies are not

sufficient to meet our food requirements, scarce resources of the community have to be necessarily diverted for imports of grain. In the absence of corresponding exports to narrow the gap between needs and internal supplies, it is obvious that the day is not far off when most of our exchange resources may have to be spent on food imports alone, unless we reconcile ourselves with 'positive,' checks like famines. It is also not certain whether we can continue to depend upon supplies of imports. If the international situation worsens, supplies may be cut off. If the harvests in food-exporting countries fail, the supplies will be reduced. It is also difficult to procure adequate shipping space to transport the grain from distant countries. We cannot also hope to be dependent upon supplies from neighbouring areas like Pakistan and South-East Asia, which today are in a position to export food. For, even in these countries the pressure of population is gradually eating into the volume of agricultural surplus. It is on account of these factors that the food problem has overshadowed all other problems and the Government has been spending large amounts on the efforts to step up food production in the short period. It is no wonder that the Planning Commission has recommended more than 30 per cent. of the total outlay of the Plan on projects and schemes whose main aim is to increase our agricultural capacity.

While it is true that the food problem can be viewed in overall terms as the manifestation of a disequilibrium between agricultural production and population, we should also note that there are other aspects of the problem. Among the functions of a modern Government, the most important is to assure minimum supplies of basic commodities to all citizens. When there is an overall shortage, the Government has to think in terms of rationed distribution, which means that it has also to follow an adequate policy of procurement and controls. It is indeed very difficult to introduce the principle of uniformity of sacrifice particularly when different areas are blessed with different capacity for

agricultural production, and when the policy has to be administered over millions of small-scale farms scattered all over the country. The evolution of an appropriate food policy, therefore, depends upon the establishment of close co-ordination between the various State Governments, the acceptance of the fact of national emergency, the consequent need to make sacrifices, and the introduction of a suitable pattern of agricultural organisation so that agricultural planning can be really effective.

The Commission's Analysis and Recommendations

In view of the gravity of the food problem, the Planning Commission has appropriately devoted an entire section for the discussion of the main issues and for the evolution of a suitable food policy for the planning period. In the following paragraphs we shall give a brief idea of the main lines of analysis of the Commission and its chief recommendations:—

(1) **Overall Requirements:** The Commission has calculated that to maintain consumption at the level of 1950 (13.67 ounces per adult per day), the additional quantity of foodgrains needed in 1956 will be 7 million tons. To raise consumption to 14, 15 and 16 ounces per adult per day, the additional quantity required is estimated at 8.2, 12.0 and 15.8 million tons respectively. The Commission states that in a country of the size and diversity of India, it is not possible to distribute internal supplies so that all persons throughout the country, whether they are producers or non-producers, whether they live in surplus or deficit areas, receive the same quantity of food. The basic plan for food distribution is worked out on the principle that each surplus area should make available for distribution to deficit areas, the maximum surplus it can secure, after meeting the needs of its own population both rationed and non-rationed. To maintain the rationing system both imports and procurement

are important factors. The procurement policy of each State, its rationing commitments and the extent of its surplus or deficit are matters vital to the functioning of the rationing system. Each State must approach the problem from the national point of view, contributing its best to the pool and drawing from it only such amounts as may be absolutely needed.

(2) **Rationing and Procurement:** The Commission remarks that it is the first duty of the Government to distribute foodgrains equitably among the different sections of the population at reasonable prices. In determining food policy there is no room for any proposal or experiment which detracts from this responsibility or exposes the economy to risk or uncertainty. The Commission refutes the suggestion for restoration of free movement of grain in the country. The assumptions underlying this view are that free movement increases the supplies available in the market, whereas a system of controls reduces availabilities and diverts part of the supplies to the black-market, and that the rise in prices following the restoration of free movement is only a temporary phenomena. These are pointed out to be incorrect by the Commission which adduces the following reasons: (i) So long as shortages continue, traders can buy up large supplies and charge exhorbitant prices. (ii) The Government owes its responsibility to non-producers in rural areas as well as to the people in urban areas. Even a temporary rise in foodgrain prices creates a difficult situation for these classes. (iii) Where controls are efficiently managed, prices in the rationed and non-rationed areas remain fairly close. On the other hand, in States, which gave up procurement and rationing in favour of free movement and distribution through trade channels, prices had risen to levels higher than in deficit States where the control system was more efficient. (iv) Any step in the direction of decontrol will jeopardise the entire system of food control, which has been built up with considerable effort.

(v) Under a system of partial or complete decontrol, if expectations of increased availability are falsified, and prices rise, Government will be left with no stocks to supply areas of high prices and shortages. Since internal procurement would have been given up the economy would become highly unstable and vulnerable.

The Commission points out that all towns of a size to be prescribed by the Central Government should be rationed. In addition, in deficit areas some form of rural rationing or a system of fair price shops extensive enough to serve the countryside should be established. It stresses the importance of effective implementation of procurement policy. A system of monopoly procurement should be regarded as essential throughout the country. Adequate procurement supplemented by necessary imports, and efficient arrangements for distribution of available supplies at reasonable prices are the essential corner-stones of food policy under present conditions.

(3) **Imports:** Internal supplies have to be supplemented by imports of about 3 million tons a year. Imports of grains should be made as certain as possible through trade agreements and other arrangements.

(4) **Production:** The food problem can be solved in the last analysis only if enough food is produced in the country, and the volume of marketable surplus is sufficient to met the needs of the growing urban population. The Plan makes provision for an increase of 7.2 million tons in the production of foodgrains.

(5) **Marketable Surplus:** A much larger proportion of the produce of surplus farmers should come within the orbit of Government's direct procurement. The proposal to constitute agricultural holdings above a prescribed size into Registered Farms is designed to achieve this object.

(6) **Price Policy:** When price incentives favouring certain crops as against others are offered, the farmer will respond and there will be additional production in the lines which are favoured. Such a policy is not consistent with the expectation that the targets in respect of foodgrains will be kept up. Moreover, too great an emphasis on one crop or another will run counter to the exploitation of the natural and economic advantages of different areas. The structure of production may be distorted. It is in this sense that the aim of policy should be to maintain the relative prices of different agricultural commodities at such levels, that, without being influenced by excessive price stimuli in one direction or another, it is possible to assure increase in food production to the desired level *pari passu* with an increase in the production of commercial crops. The Commission makes a strong case for the regulation of the prices of competing crops. In the absence of such regulation, there will be a natural tendency to substitute non-food crops for food crops. The Government cannot justify such partial control either on economic or on social grounds. The first step should be to prevent the prices of commercial crops like jute, cotton and oilseeds from going up. The relative profitability of different crops should remain the same. An incentive offered in one line soon raises the costs in another and tends to create demands for similar increases in prices elsewhere. Successive doses for price incentives defeat the very purpose of incentives and undermine the stability of the economy.

(7) **Reserve Stocks:** A reserve of at least a million tons, as distinct from quantities required to maintain the rationing system, should be built up to meet emergencies and to influence prices.

Towards an Appropriate Food Policy

Important Elements of the Problem: While the Commission's analysis definitely breaks new ground in

various issues, it would be appropriate, however, if a detailed analysis of the various aspects of the food problem, some of which have not been taken note of by the Commission, is attempted in view of the extreme importance of the adoption of a proper food policy. In the first place, it would be convenient to get an exact statistical idea of the important elements of the problem. Table 22 indicates the main details in this respect over a period of years.

TABLE 22

Food Statistics, 1946-50

('000 *tons*)

Year	Production	Procurement	Internal surplus	Imports
1944	48,203	2,797	785	1,577
1945	47,138	3,884	850	1,778
1946	42,820	3,885	479	2,638
1947	43,088	4,135	285	2,654
1948	44,316	2,575	364	2,840
1949	41,068	4,184	340	3,706
1950	45,520	4,684	773	2,165

The table clearly indicates the following facts: (i) Total food production is subject to wide variations depending upon vagaries of rainfall, floods, cyclones, etc. (ii) The quantities of grain procured also indicate wide variations. In this case the variation is not related to production, in the sense, that a decline in the total production does not necessarily indicate a decline in total quantities procured. In fact, it is seen that during 1949 when food production touched a low level, the quantities of grain procured were the largest. From this it follows that the proportion of grain procured to total production depends upon the efficiency of procurement as well as the technique of procurement. (ii) Whereas both total production as well as procurement have been subject to wide fluctuations, the quantities of internal surplus made available from procurement show a remarkable tendency towards a gradual decline. Internal surplus refers to the surplus available from the States whose production of food is in excess of internal requirements. We shall analyse the reasons for the variations in this important aspect later. (iv) The quantities of imported grain have continuously increased. This indicates the increase in the magnitude of the food problem. With a growing population, given constant production and a declining trend in internal surplus, the extent of dependence on imports is bound to increase. It will be seen that compared with 1944, the quantities of imports had risen by 100 per cent. within a period of six years.

Fundamental Principles in determining Food Policy: In analysing the main trends in the food situation as well as in suggesting proper remedies, the following factors should always be borne in mind: (i) It is the primary responsibility of the Government to provide an adequate quantity of foodgrains for every individual in the community. Given an increase in population, the commitments of the State are bound to increase. As the Commission itself has remarked, there is no room for any experiment which detracts the Government from its primary responsibility of meeting the minimum food requirements of the community. (ii) Whatever be the individual production as well as requirements of different States, on account of the burden thrown upon the Central Government to provide adequate quantities of cereals for the entire community, an appropriate food policy has to be based on a national standpoint. The interests of different States have to give way to the national interests. If the States are reluctant to adjust their internal policy in accordance with national requirements, it becomes incumbent upon the Central Government to enforce a policy which is in harmony with the national interests. (iii) It is obvious that there is a large gap between aggregate food production and aggregate food

needs. It is also clear that it is well nigh impossible to expand internal capacity so that the gap is made up in a short period of time. Moreover, the magnitude of the disequilibrium between food production and food requirements is an increasing function of the size of the population. On account of a large gap between total supply and total demand and the inelasticity of the productive system, the establishment of a free market in foodgrains will not lead to increased production. Moreover, the existence of considerable sections of anti-social elements in the community, as well as the fact that the rationing requirements are not sufficient to satisfy the maximum needs of the high income groups, make it obvious that a policy of decontrol is immediately bound to lead to high prices. When once the prices go up in a staircase fashion, it will be difficult to bring them down. (iv) As food is an important element in the budgets of industrial workers as well as agricultural labourers, any tendency for an increase in food prices is bound to be reflected in a demand for higher wages, which in turn would lead to an increase in the cost of production. The general price level in a backward community is very closely related to the level of food prices. (v) Food being the topmost priority in the requirements of individuals as well as in the policies of the Governments, it is necessary to recognise the importance of following a consistent policy for providing a solution to the food problem. A solution to the food problem has to be based on two fronts. From the immediate point of view, all efforts should be concentrated, firstly, to keep the level of food production constant and to prevent it from going down, and secondly to increase the quantities of food produced by various types of assistance and policy measures. From the long-term point of view, efforts should be directed to increase the productive capacity of the country. As food satisfies a basic need, and as without food there can be no sustenance of life, when it comes to a question of choice, priority should be given to food as against other commodities. The fact that

imports are available should never blind anyone to the responsibility of keeping internal food production and procurement at the maximum possible level. In formulating economic policy and in offering incentives by way of prices, and in propaganda campaigns, the claim of foodgrains should never be receded to the second place. It would be better for the community to increase its extent of dependence on imports for raw materials than for supplies of food. Self-sufficiency in food should be accepted as a goal of economic policy even though it may not be possible to achieve it within a very short period. A corollary of such a policy would be, that all efforts should be undertaken to prevent the diversion of land from food crops to commercial crops. (vi) Given limited land, it can be used either for production of foodgrains or for commercial crops. The Government's policy should, therefore, be definite and clear as to whether it wants an increased production of cereals or of commercial crops. A confused policy which aims at larger production of both, and adopts a system of partial control, succeeds ultimately in curtailing the production of foodgrains. It should be accepted as a matter of faith that as much of the best land as possible should be necessarily devoted for purposes of growing food. In these respects also, the responsibility of the Central Government should be to evolve a national policy for the country as a whole and to see that the policy is effectively implemented by the different States. Sectional or vested interests should never be given predominance over national interests.

Factors governing Procurement: We have outlined above a number of principles which should determine the proper approach towards the evolution of an appropriate food policy for the country. On account of the importance of the problem, we shall analyse further the various factors which govern procurement as well as production. Taking up procurement first, let us assume that production is given. The quantity of grain that is procur-

ed in a region depends upon various factors. As indicated earlier, there have been wide fluctuations in the success of the procurement campaign, not necessarily depending upon variations in production. This indicates, that, given appropriate measures in respect of procurement, it is possible to increase the quantities procured. Our objective therefore, is to ascertain the potential extent to which the procurement campaign can be stepped up and the measures to be adopted for the same. In this connection it would be appropriate to analyse the factors determining procurement taking into account the individual farms or villages. In the first place, the supplies that a farmer's family can make over to the Government, depend upon the requirements of the family. To the extent that these requirements change, the supplies forthcoming will also be altered. If the size of the family of the farmer increases, the quantities procured will diminish. Now, from the point of view of a country like India, the variations in the volume of stocks is an important factor in determining the quantities of the marketable surplus. If the farmer is uncertain about future harvests, or if he expects that at some future date he can get a better offer for his grain, his tendency to keep a portion of the grain for stock, will increase. It is in this sense that the pursuit of an overall policy which declares the Government's intention to supply adequate quantities of foodgrains to every individual and an assurance that the Government would not adopt a policy of decontrol or of partial levy in future, is an important factor in determining the success of the procurement campaign. Moreover, to the extent that the farmer is enthused to help in the solution of the food problem as a matter of patriotic duty, the success of the campaign will also be increased. It is in this context that the human element plays an important part, on account of the illiteracy of the farmer. The Government's attitude towards land reorganisation as well as its programmes in respect of village upliftment, all exert a certain influence on the farmer. An increase in

his enthusiasm will mean an increase in the quantities of grain procured. At the same time, an increase in the efficiency of the procurement machinery, and in the degree of informality and tact employed by the officials, is also an important element in the entire programme. Further, as we are analysing the quantities of grain forthcoming to the Government, it is necessary to find out whether the Government is able to close all alternative channels, which can reach the farmer by offers of higher prices. In some States, a partial levy is employed and the farmer is allowed to market the rest of his grain in the free market. In some other States, administrative measures are not efficient to curb black-marketing and the shadow dealings of middlemen. It is in this sense that the need for an effective stoppage of free movement between areas becomes important. It is also necessary for the Government to accept the ration commitments of all non-producers so that the possibility of an alternative market, which facilitates the dealings of middlemen, is prevented. Finally, in analysing the effectiveness of the procurement campaign, it becomes necessary to emphasise the importance of the price aspect. The price offered should be reasonable to meet the costs of the producer and to leave a small margin over and above the costs. The importance of this issue will be analysed at length at a later stage. From this, it follows that so long as the procurement price is not related to the costs of cultivation, the procurement campaign is not like to succeed to the requisite extent.

Technique of Procurement: Beyond suggesting that under the existing conditions monopoly procurement is essential throughout the country, the Commission has not discussed the issue of introducing uniformity in the procurement techniques in different States. Even though the gravity of the food problem has been gradually realised by the Central Government, no attempt has been made to introduce an efficient technique of procurement in every State, deficit as well as surplus.

The issue that is relevant in connection with the technique of procurement is, whether the maximum possible grain, that can be procured, in being made available to the Government. It is possible to evolve a system, wherein the Government has direct dealings with every farmer, and by a system of levy along with monopoly procurement, the Government is in a position to get a certain portion of the farmers' production. The most efficient technique prevails where the Government stipulates the amount of grain to be sold by the farmer, after calculating the latter's consumption requirements. Of course, it is necessary to ban movement of cereals within the village or between the villages. This system of intensive procurement does not give scope for any loophole whatsoever. On the other hand, if the Government stipulates that a certain proportion should be sold to the State, difficulties are created in that, at times of increased production, the farmer is in a position to retain the right to dispose of larger quantities. The technique of procurement, which stipulates the proportion of production to be surrendered to the Government, will not therefore lead to optimum results. It is also necessary to follow the principle of uniformity of sacrifice and non-discrimination regarding producers as well as non-producers, in order to ensure the success of the procurement programme and at the same time to create an atmosphere of maximum incentives. This means that the Government will have to calculate the individual requirements of farmers according to some uniform standards and should take over all grain over and above the requirements of the farming family.

From the point of view of the attainment of maximum efficiency, the proper criterion for distinction is not between surplus districts and deficit districts or surplus villages and deficit villages, but between surplus farms or producers, and farms whose production is just sufficient to meet the requirements of those who depend on the farm. In many cases the production on the farm may not be sufficient to meet the cereal requirements of those who depend on the farm. A

village may be a surplus village even though within the village there are different types of farms, only some of them being surplus. Moreover, in any village, there will be producers as well as non-producers. A village may be reckoned as a deficit village even though there may be a number of surplus farms within the village. The mere statement that a particular village is surplus or self-sufficient, considering the overall requirements of the residents of the area, does not indicate, that when the procurement system is given up, and when the State has absolved itself from the responsibility of distribution of cereals to non-producers, all persons in the village will be supplied with the minimum food requirements. The same considerations weigh when the think of surplus districts or deficit districts. We have to take account of the possibility of price rises as well as of hoarding and smuggling. Moreover, among the persons residing in any area, there will be differences in incomes, and those with relatively larger incomes may be in a position to buy more than what they would have got under rationed distribution, with the consequence, that those with lesser bargaining capacity would not be supplied with the same quantity of food, which they would have got, if a system of rationed distribution had existed.

In many States the Government purchases grain through the ordinary channels of trade. This leads to considerable loopholes, inasmuch as trade interests will not necessarily place considerations of the community above their own interests. When the Government contents itself by buying only a fixed proportion from the trade, and leaves the rest for free disposal, there is always the possibility for the traders to increase the quantum made over for free disposal. The farther the Government agency is removed from the farmer, the greater is the scope for leakages. As the system of purchases from the trade is more common among the surplus States, the efficiency of the procurement campaign tends to be less than if the Government had tried to maintain direct contract with the

farmers. In some States, the Government buys only part of the grain and allows the rest for sales at market prices; with scope for large leakages.

On a consideration of all aspects, it is necessary to introduce as far as possible a technique of procurement which fulfils the following conditions :—

1. The Government must have monopoly of entire trade in the commodities;

2. The Government must have also a system of levy by which the farmer is compulsorily forced to hand over to the Government the cereals produced by him;

3. In deciding upon the quantities of cereals to be handed over to the Government, it is advisable to calculate the requirements of the farmers after detailed investigations rather than on a percentage basis;

4. The approach towards procurement should not be decided according to areas but according to individual producers;

5. The Government should as far as possible have direct dealings with the farmers. It would not be advisable to depend upon the expectation that the free play of natural forces would lead the farmers and traders to act in a manner most conducive from the point of view of the community. Under the existing conditions, the forces in the community do not automatically bring about a situation wherein the pursuit of private interests leads to the fulfilment of social needs.

Factors determining Production : We have up till now assumed that production would be constant. It is now necessary to remove this assumption and to study as to how the quantities of procured grain would vary with production. It is in this context that the Commision's suggestion for prevention of diversion of land from food-crops

to commercial crops becomes relevant. As stressed earlier, if food self-sufficiency is accepted as the goal, it should be pursued consistently. To the extent that the farmer is offered a higher price for a crop which can be alternatively grown on his land, the natural tendency for him is to grow that crop. It must be noted that the farmer is in a better position to adjust his structure of production if he can satisfy his own needs for food first. Let us suppose that a farmer has a piece of land on which cereals can be grown over and above his own requirements. Let us assume that he grows only cereals on the land. Now, let us suppose that the prices of a competing crop increase. This means that the farmer can increase his earnings by cultivating the commercial crops and devoting only a small piece of his land to cultivate cereals to satisfy his own requirements. The farmer will, therefore, produce food for his own consumption. There is not that urge in him to continue with the production of only food crops to the exclusion of others.

Strictly speaking what is relevant is the rate of increase in the prices of the different crops. Even granting that the prices of foodgrains increase, the farmer will not maintain the production of foodgrains, if the rate of price increase in an alternative commercial crop is larger than the increase in foodgrain prices. During the last three years the Government of India have been following a policy of self-sufficiency in food as well as commercial crops. The prices of foodgrains have been controlled, and the Government has employed the device of procurement to buy the grains from the farmer. On the other hand, there has been relatively a free market for the disposal of commercial crops. It must be remembered that it is not enough if the prices of alternative crops are controlled. What is important is that the control should be effective. Control becomes effective when the Government is in a position to influence prices by means of large stocks or the Government

acquires powers to become the monopoly buyer for the crops.

Unfortunately, the Government has not followed a systematic policy to keep the production of food at a high level. It has veered towards self-sufficiency in cotton and jute. At the same time, prices of oilseeds have soared. As a consequence of such tendencies it is no wonder that there has been large-scale diversion of land from food crops to commercial crops. Table 23 gives an account of the acreage as well as production of different crops during the years 1948-49 and 1950-51:

TABLE 23

Land Utilisation in India from 1948-49 to 1950-51

(Figures in millions)

Name of the Crop	Area under Cultivation		Production	
	1948-49	1950-51	1948-49	1950-51
Foodgrains (tons) ...	193.4	199.2	45.7	43.5
Sugarcane (tons) ...	3.8	4.1	4.9	5.5
Oilseeds (tons)	23.6	26.0	4.5	5.1
Cotton (bales)	11.3	13.9	1.8*	2.9*
Jute (bales)	0.8	1.4	2.1†	3.3†

* in bales of 392 lbs. each.
† in bales of 400 lbs. each.

Decline in Food Production in spite of Increase in Area: It is evident from the table that the total area under cultivation has increased from 233 million acres in 1948-49 to 245 million acres in 1950-51, the increase under food crops amounting to approximately about 6 million acres, the increase in respect of oilseeds and cotton to 2 million each, and in respect of jute to about .6 million

acres. Thus there has been considerable increase in the acreage under all the crops, though the proportionate increase in cotton amounts to as much as 23 per cent., whereas in jute it amounts to nearly 75 per cent. The increase in sugar-cane is about 8 per cent., and in oilseeds about 10 per cent. Compared to the proportionately larger rate of increase that has taken place in commercial crops, the increase of acreage under food-crops is only about 3 per cent. The production figures, on the other hand, indicate an actual 5 per cent. decline in food grains, whereas they indicate a 12 per cent. increase in sugar-cane, 13 per cent. increase in oilseeds, 69 per cent. increase in cotton, and 57 per cent. increase in jute. From the above data, it is seen that except in the case foodgrains, where, in spite of an increase in area, there has been a decline in production, there has been a significant increase in production in all the four commercial crops.

From the above figures we should not arrive at the tempting conclusion that there has been no substitution from food-crops to commercial crops. The crucial factor that has to be explained is the reason as to why, in spite of the increase in acreage, the total food production has continued to be less. This is not a trend witnessed in the last three years only. If we survey the agricultural statistics over the last 15 years, the same trend indicating a decline in cereal production, in spite of an increase in acreage is borne out. There can be only two explanations for this: (a) either the soil conditions have continued to deteriorate on account of the lack of replacement of nutritive fertilisers, or the area that has been brought under additional cultivation is of the marginal type indicating less potential in respect of yield or (b) there must have been considerable substitution of area having a high yield potential in respect of food from food-crops towards commercial crops. It appears to us that there are valid reasons for supposing that the condition in the country did warrant a trend of the latter type. On account of relatively higher

price advantages for commercial crops, land which could have yielded larger quantities of cereals, must have been diverted for the growth of commercial crops. This might be particularly so in large-sized farms, and among farmers who are more than subsistence producers. The same trend also explains the fact there has been proportionately a larger rate of increase in the production of commercial crops as compared to the increase in the area. It does appear in some cases that land which is not merely of the marginal type has been utilised for the growth of these crops, thus substantiating the argument given above.

Extension of Monopoly Procurement to all Crops: What should be the appropriate policy under the circumstances. Is the devise of controlling the price of competing crops enough ? It is in this context that we suggest the need for adopting a technique of monopoly procurement in respect of every crop. The area under commercial crops forms only about 20 per cent. of the total area under cultivation in India. As we are having a large administrative machinery for procurement and for the rationed distribution of foodgrains, the adoption of the device of monopoly procurement of all crops would not entail large additional cost. Even if some additional expenditure becomes necessary, from the point of view of freeing the community from the perpetual uncertainties associated with food supplies, we think that such expenditure can be socially justified. It this policy is adopted, the Government would be in a position to follow an appropriate structure of prices for different crops and to suit the production requirements according to the needs of the community. The different industries would also be assured of the supplies of raw materials at low prices, the Government imposing the condition that a reduction in the prices of raw materials should be followed by a reduction in the prices of consumer goods produced with the aid of such raw materials. This would remove the possibility of large profits being reaped by the

industries at the cost of the rest of the section of the community. It will also be possible for the Government to follow a technique of differential pricing in different areas to see that the different crops are grown in those areas where they have the largest natural advantages. The full potentialities of the different types of soil can thus be realised. Simultaneously, the Government will have to adopt strict measures to prevent the activities of anti-social elements. The adoption of the policy suggested above would lead to the abolition of the system of dual prices associated with sugar-cane. As was pointed out earlier, the professed success of the sugar policy has been at the cost of foodgrains. The success of the jute policy has also been partly at the cost of foodgrains. Similar is the case of cotton as well as oilseeds. All grain as well as commercial crops produced in all farms in the country will have to reach only the Government. At one stretch, the policy will remove the disincentives associated with a system of large gains for farms growing commercial crops, and returns barely sufficient to compensate for the cost of cultivation in the case of farms growing foodgrains. It will thus be possible for the Government to see that the best land is not utilised for the growth of socially less urgently needed commodities.

Central Responsibility in Food: The events of the last few years have clearly demonstrated that the response of the farmer is quick and large in the case of commercial crops. Why should there be a continuously declining response towards the growth of foodgrains ? Is it not necessary that the dangerous trends which are in operation in the community should be prevented ? The food problem has been with us for a number of years. Its gravity is increasing continuously. Unless effective steps are taken to provide a solution to the problem on a short-term as well as on a long-term basis, the entire economic activity of the community will be thrown out of gear. The responsibility of States growing surplus grain is very great in this respect. It is unfortunate

that vested interests in some of these States have continued to play an important part in diminishing the contribution from these areas. On account of the national importance of the food problem, all issues associated with the growth of food crops as well as the procurement of cereals, and the growth of competing crops and their procurement, must fall under the direct jurisdiction of the Central Government. It is dangerous to continue to depend upon imports in respect of food. It is in this context that it is necessary for the Central Government to assume all powers to pursue effectively a co-ordinated agricultural policy which tries to maximise the response for procurement, which adjusts the pattern of crops grown in different States and fixes the prices of different agricultural commodities.

Rationing : It is sometimes suggested that if the Government extends the scope of rationing and brings a larger proportion of the people under a system of rationed distribution of cereals, the intensity of the food problem may be reduced to some extent. These suggestions tend to ignore the important factors which put a limit to the Government's capacity to extend the system of rationing. A system of rationed distribution implies that the Government would take upon itself the responsibility for providing a minimum quantum of cereals to every individual or family possessing a ration card. If the supplies flowing towards the Government by means of procurement and imports remain constant, then an extension of the rationing system is possible only by reducing the quota of cereals supplied under rationing. From the point of view of a State Government, unless supplies through procurement or imports increase, extension of rationing will not be possible. An increase in internal surplus is possible when some other States are in a position to export larger quantities. From the point of view of the entire country, an increase in internal availabilities of cereals is possible only through increased production or larger procurement. An increase in the intensity of the procurement campaign is, therefore, a necessary pre-condition for the

extension of rationing. It is true that the *per capita* availability of cereals varies from 20 ounces in Madhya Pradesh to 12 ounces in Bombay. To the extent that some of the States, which have a higher *per capita* availability of cereals, undertake the responsibility for larger procurement, it is possible that on account of the increase in the availability of cereals, the scope for rationing may be increased. But an intensification of the procurement drive requires the adoption of a proper technique of procurement, which gives no room for loopholes. This means that the Government will have to institute a system of monopoly procurement along with a levy to take over the entire quantities of cereals over and above the consumption requirement of the farmers. Even if the consumption requirements of the farmers are put at 16 ounces, it is reasonable to expect that the quantities of grains procured will be increased. At the same time, stringent restrictions will have to be imposed upon extravagant and luxury forms of cereal consumption, as for example in parties etc. At present, these restrictions exist in the case of cities. There is a justification for extending these restrictions to the rural areas also, as well as to the surplus States. Intensive procurement along with the levy should be introduced not only in surplus States but also in the surplus farms in deficit States. It is possible that by these methods nearly about half a million ton of cereals may be procured in addition to the present supply.

It may be surprising that in surplus States like Madhya Pradesh, Orissa and Pepsu, there is no system of statutory rationing at all. Taking the entire country as a whole, the total number of people under statutory rationing has decreased from 54 million in 1947 to 45 million in 1950. In many cases this has been due to helplessness on the part of several deficit States to fulfil the responsibilities associated with statutory rationing. In a similar manner, the number of people under informal types of rationing has decreased from 90 million in 1947 to 79½ million in 1950. This is also mainly due to the abandonment of rural rationing in

many of the States. In this connection, it may be pointed out that an extension of rationing in surplus States should not generally be permitted unless a corresponding improvement in procurement is promised. For, an extension of rationing in surplus States, without any improvement in the procurement campaign, would only lead to larger internal consumption of the grain procured, which would mean that the surplus available for exports to the other States would be diminished.

As the food problem is undoubtedly the most important of our problems and as it affects millions of individuals, all possible efforts towards increasing the internal availability of grains should be undertaken, even though in each State the volume of improvement may be limited. When little savings are added up they will form into a significant portion of the community's requirements. It is in this sense that a reduction in the *per capita* supply of cereals per individuals in States like Madhya Pradesh would go a considerable way in solving the problem of several deficit areas. The difficulty is that in the case of procurement, the campaign has to deal with millions of farmers who are in a position to dictate individually the terms on which they offer the grain. They themselves produce a part of the real income which they consume. That is why very careful steps are necessary to secure from the farmers a larger quantity of cereals. Any reduction in the consumption requirements of these farmers would considerably help in solving the problem of the community.

Measures to Solve the Food Problem: A proper solution of the food problem requires the adoption of the following measures:—

(1) The adoption of a technique of monopoly procurement for all crops grown in the community;

(2) Increasing the scope of Central jurisdiction in all aspects connected with the growth of agricultural commodities as well as the fixation of prices;

(3) An intensification of the procurement campaign by adjusting the prices offered for procurement according to costs of cultivation. The suggestion of a technique of block pricing is offered for this purpose.[1]

(4) A declaration of policy by the Government to the effect that they will be responsible for adequate supplies of foodgrains to all sections of the community. This will reduce the impact of uncertainty and decrease the volume of hoarding.

(5) Extension of rationing in surplus States and introduction of uniformity in the *per capita* supply of cereals to individuals in different States.

(6) An increase in the administrative machinery in order to cope with the new tasks.

(7) An increase in the intentification of campaigns with a view to augmenting productivity in the immediate future. This involves measures to adopt crop planning so that the full potentialities of different types of soils are realised.

(8) Popularisation of non-cereal substitutes for food so that the heavy pressure on cereals may be reduced.

(9) The maintenance of food subsidies on account of the importance of food in the cost of living.

(10) Long-term commodity agreements with countries which can supply food to us. On account of the increase in the desire of both India and Pakistan to co-operate in the economic field, it is necessary to seek ways and means by which we can be assured of adequate supplies of food, raw

1. As this suggestion requires some technical discussion, it has been thought advisable to give the same separately in an appendix at the end of this section.

jute as well as raw cotton from Pakistan. At the same time, it may be necessary to divert a considerable section of our industrial products to Pakistan in order to make up for our purchases. The pursuit of self-sufficiency in commercial crops, at the same time while Pakistan has a large potential capacity in them, will be suicidal for both the countries.

(11) Intensification of efforts to check the impact of anti-social elements—prevention of black-marketing, hoarding, as well as speculation, in all agricultural commodities.

Conclusion

It may appear that the alterations in our food policy suggested above are drastic and involve a large extension of Government control. But what we have suggested are the minimum measures required to meet the situation. It must be remembered that there can be no playing with the food problem. Every year our commitments in food are increasing to the extent of about half a million tons. If the same trend continues, within a period of ten years, more than 60 per cent. of our foreign exchange resources will have to be devoted for imports of foodgrains. The pressure on the foreign exchange that has been exerted by food imports has not become fully significant, as we were in a position to draw upon our accumulated sterling balances to meet our balance of payments difficulties. But at the end of five years most of our balances will have been drawn. We shall then be forced to depend upon our normal trade earnings to meet the commitments for food imports. Supplies of capital goods as well as raw materials will have to be decreased and a fall in the standard of living will have to be faced. The prospects for an increase in the standard of living will also then become remote. Some of the States have not realised the full significance of the food problem. They have been following a policy of lukewarmness on account of the fortunate accident that they are more or less

self-sufficient in food production; but let them be for ever warned, that within a few years, granted the continuance of the population pressure, they will also be forced to come to the Centre with the begging bowl. It is wise statesmanship to be forewarned against future dangers. That is why national interests must predominate in the formulation of proper policy for the food problem. As supplies of food must get top priority over other commodities, it follows that a national policy must aim at monopoly procurement of all crops in order to prevent the diversion of land as well as to maintain a uniform system of incentives. It is true that some private sectional interests, particularly the trade and the business groups, may tend to oppose these suggestions. It is the duty of the Government to overrule sectional interests in favour of national considerations. If an industrial base in the community has to be built up, there must be certainty of adequate supplies of cereals from the rural areas to the urban areas. Activities in deficit regions can be carried on, provided that there is a guarantee that the surplus regions will part with their surplus to meet the requirements of the former. Progress depends upon division of labour, but division of labour entails a policy of give and take, and is based on mutual trust and confidence. It is in this context that we have to oppose any attempt on the part of any State or region to follow a policy which places regional interests above national interests. The food problem cannot be solved in a few years, even if concentrated efforts are made and all the suggestions outlined above are accepted. The gap between production and requirements has to be bridged by an effort on both the fronts. As it is difficult for the community to keep up a rate of increase in the productive capacity, which is sufficient to meet the rate of increase in the needs, it is necessary to adjust the latter. This means that a proper solution to the food policy is closely related to the adoption of an appropriate population policy.

Appendix : Schedule of Block Rates for Agricultural Commodities

Our objective is to ascertain whether the production of agricultural commodities, particularly of cereals, can be increased by means of certain alterations in the system of price incentives offered to the farmers. It is well known that the volume of agricultural production has not been as much responsive, as it should have been, during the last few years. Agricultural production, specially of cereals, has continued to decline compared with the production in the pre-War years. At the same time the area left under fallow has been alarmingly increasing. The Planning Commission has estimated that nearly 10 million acres are left fallow. Several economists have maintained that the farmer is not putting forth his best efforts because of the reason that the system of money incentives has gone beyond the stage of producing an adequate response by way of additional effort. Those who support this point of view argue that the farmer is having increased prices for his product. Or, to put it in other words, for the same quantum of effort, he is getting increased incomes. Beyond a particular stage, the offer of increased incomes does not lead to supply of additional effort. If the farmer finds that he can get same income for the less effort, why should he think of working more so long as he does not find the additional income worth the additional efforts. According to the proponents of the above view, this explains why the farmers in many cases have actually reduced the quantity of work, that they were formerly putting forth. Agricultural production, therefore, has declined in spite of increased price incentives. The favourable trend in the prices of agricultural commodities which has continued even during the post-War period has not succeeded in stimulating agricultural production.

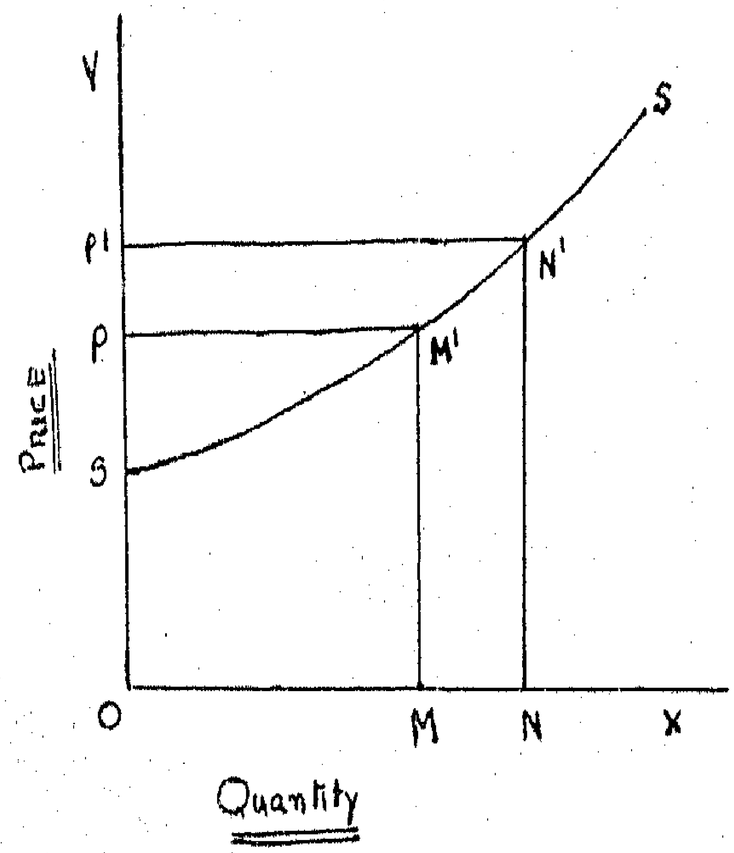
Let us consider in some detail the above argument and examine its validity. The supply of effort in response to changes in the rate of payment for effort is not subject to any

mechanical reactions. Just because of the fact that increased wage rates are offered, the worker will not necessarily reduce the amount of work that he was formerly doing. The important factor here is the elasticity of demand for additional income. So long as the worker feels the necessity for additional income, he will decide in favour of doing the work rather than reducing the amount of effort. In a similar manner, just because prices of agricultural commodities have increased, we cannot conclude that the farmer will necessarily reduce his effort. To maintain that he *will* reduce his effort, we have to prove that the farmer has no need for additional income or that the farmer's preference for leisure has increased. Unless we can prove that the farmer does not find any utility for additional income, we cannot *a priori* maintain that he will reduce the quantum of effort, if agricultural prices increase.

If we go deeper into the problem, we find that the analysis of the response of effort to price incentives is valid only when we are thinking of a situation, wherein, a change in particular prices rather than a change in the general price level has taken place. An increase in the general price level connotes that at the same time that the farmer's income increases, his expenditure commitments will also increase. On account of the increase in the prices of commodities which the farmer buys, the farmer's cost of living has also gone up. If the farmer is not affected by money incentives, why at all should he clamour for increased prices? In fact, in another connection the Commission has itself stated that the increased price incentives offered for commercial crops have resulted in the shifting of the productive structure towards commercial crops. This clearly demonstrates that the farmer does respond to price incentives. If we accept this and also the fact that the general price level has gone up, we have to conclude, that, the argument so often repeated in India that the farmer has not responded to increases in prices on account of the ineffectiveness of the money incentive, may not be valid either in theory or in practice.

It is necessary, therefore, to seek for some other explanation in order to diagnose the maladies retarding agricultural production, particularly of cereals. In this connection, it must be noted that, in many States, the prices of cereals have been fixed, and the farmer can get only a stipulated amount of returns for the cereals which he produces. The procurement price which confronts the farmer is an average price. It is valid for the entire quantity which the farmer is in a position to supply to the Government. It is well-known that production in agriculture is subject to the law of Increasing Costs or Decreasing Returns. Diagram I

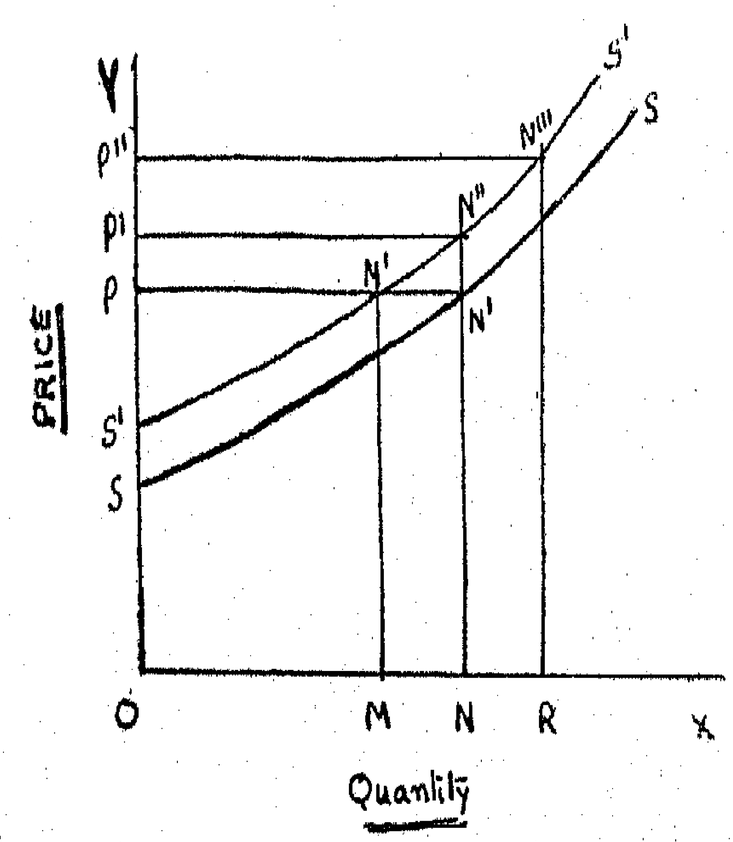
DIAGRAM I



indicates the situation in this respect. SS is the supply curve of the agricultural commodity. For price OP quantity OM will be produced. If the community wants production ON, the price offered will have to be OP'. The increase in costs for securing a given quantity of additional production is due to the fact, that the best land will have been already

exploited particularly in an old country like ours, and secondly, that the farmers will intensively cultivate up to that margin, wherein the price forthcoming is equal to the cost of the additional effort. If further intensification of efforts on an already cultivated piece of land, or, an extension of cultivation to areas now not being cultivated, is to be rendered possible, the price offered will have to be sufficiently attractive to make up for the increased cost of additional efforts. Secondly, there is another complication to be noted. When the general price level increases, the cost of cultivation also increases. When the cost of cultivation has increased while the procurement price continues to be the same, the volume of agricultural effort will decline up to that point, in which the cost of marginal effort is equal to the price offered for the returns of that effort. This is indicated in diagram II. SS is the cost of production of

DIAGRAM II



the commodity. The procurement price is OP. As a result of response to this price, ON quantities of the agricultural

commodity is being produced. Now, let us assume that the cost of cultivation increases as a result of an increase in the general price level. The cost curve is now lifted upwards and the new cost curve under the altered circumstances is S'S'. If the Government maintains the same procurement price, then only OM will be produced, and there will be a decline in production from ON to OM. This decline may take the form of an increase in the area of land left under fallow or a decrease in the intensity of efforts on the cultivated land. If the Government, however, wants the same level of production that existed when the price level had not altered, two courses are open to it. It may increase the procurement price from OP to OP'. In this case the increase in the price will be uniform and will be valid for all units of production. On the other hand, if the Government wants to minimise the expenditure commitments, then it may retain the price OP for production OM and offer OP' for the additional supply of MN. In this case the Government will be adopting a schedule of block prices. If the Government wants production to increase from ON to OR, it may offer three different prices instead of two.

What are the conditions necessary for the success of the schedule of block prices suggested above? In the first instance, the Government should have, as far as possible, direct dealings with each individual producer. Secondly, there must be a ban on movement of grain from one producer to another. These two conditions already exist in the case of States, in which there is an intensive monopoly procurement system coupled with the institution of a levy. In the third place, the second price will be valid only under the assumption that the farmer supplies the quantities, which he is supplying at present, at the old price. The new price will be valid only for the additional amounts that the farmer is willing to supply. OP' is valid only under the condition that the farmer hands over OM for price OP. This in fact is an essential condition of the technique of a schedule of block prices. This removes the fear that when multiple

prices are introduced, the farmer will decrease the quantity, which he was supplying for the first price.

If we assume, that there is a certain possibility for increasing the tempo of response from the agricultural sector, and that the sector has a certain potential capacity for augmenting production, then, by appropriate price variations as described above it is possible to increase the quantities of commodities flowing to the Government. The adoption of a block price system will also result in an additional advantage. There is a strong feeling in the country that certain large quantities of foodgrains are being diverted towards the black-market. Besides supplying to the Government, the farmer also supplies to the black-market trader or the peddler. Whatever be the quantities that go towards the black-market, we must remember that the total amount of supply, including the supply going to the black-market and the legal market, would be less than the total amount of supply that would be forthcoming if the Government takes a bold step and introduces a system of block price schedules. We base this argument on the assumption that the number of dishonest men in the community is less than the number of honest man obeying the law. We should also not forget that for every breaker of law, there would be a large number of people who obey the law, either on account of their conviction that the law should be obeyed, or fear that the costs of risks are greater than the prospects of additional gain. Further, a large amount of additional effort would be forthcoming if we offer the farmer a legal system of differential price incentives. We will be thus mobilising the surplus energies of millions of producers. At the same time, in respect of the marketable surplus, there would be a significant change if the Government offers a higher price for grain supplied over and above a particular amount which is already being supplied. This might perhaps introduce a certain degree of reduction in the consumption of the cultivators, if we assume that they were formerly consuming more. There would be the prospect of additional

incomes which would accrue for certain curtailments in consumption. If the system is properly formulated and administered, it is possible that the black-market transactions may be minimised or even wiped out, thus releasing additional quantities to the open market. Meanwhile, the system would also discourage the existence of speculative activity. Individual hoarding will also tend to decline.

It may be asked as to whether the State would be in a position to incur increased expenditure on procurement. We would like to remind ourselves in this connection that we are importing large quantities of foodgrains from other countries. The prices which we pay for the imported grains are very much higher than those that the Government offers to the farmer for procurement. In other words, the Government is incurring additional expenditure on imports, in order to bridge the gap between supply and demand. If the principle that we should pay higher prices for imports in order to meet the deficiency is accepted, there can be no objection if the Government makes the same amount of payments, or perhaps less, by offering increased prices to local farmers in return for additional quantities of foodgrains.

The Commission, however, rebuts the suggestion that the internal producer should be given the benefit of high prices, which we have to pay for imports of foodgrains. The Commission points out that domestic production is a function of the relative profitability of the growing of different commodities and that the mere offer of higher prices would not lead to larger production. The Commission's argument is that higher prices for cereals would not lead to an increase in their production, inasmuch as internal production depends upon the relative profitability of different crops. In this context, it may be pointed out that the analysis of the Commission is not fully comprehensive. Internal production of cereals, for example, would depend in the first instance upon the prices of cereals. In some cases where land can be used for other purposes, and where there are no official

restrictions, the prices of alternative crops are also important. When prices of alternative crops go up, if the procurement prices are kept low, the production of cereals would suffer. An increase in the prices of cereals by diversion of foreign expenditure towards internal producers may lead to additional production of foodgrains, perhaps at the cost of some other alternative commercial crops. Up to this point the Commission's analysis is correct. The Commission's analysis and arguments are not applicable to the case in which the production of cereals has suffered owing to the fact that the procurement price does not cover the cost of extension of cultivation or of intensive cultivation. Obviously some land would be left fallow and unless the Government increases the scale of monetary rewards, additional production will not take place. In this case, additional production is not at the cost of any other commodity. The diversion of resources now being utilised for imports of grain to local producers would not be unprofitable from the community's point of view, provided additional production is forthcoming. The argument that relative profitability determines production is based on the assumption that there is no margin lelt for additional cultivation, and so, for additional production. If the internal cost of increasing net production by a given quantity is less than the outlay on foreign exchange needed to import the same quantity, the appropriate economic policy is to utilise resources in augmenting internal production. As the major portion of land is utilised for the growth of food-crops and as in many areas there are marginal possibilities for increasing production by various types of assistance, including price incentives, the Government should choose between the additional cost for producing a given quantity internally or for importing the same quantity from foreign countries. If our import commitments are reduced, there will be an additional gain inasmuch as foreign exchange can be utilised for imports of capital equipment and other goods.

If necessary the Government can provide itself with the necessary finance internally if it adopts a system of price discrimination for the sales of agricultural commodities. Let us assume that the Government is in a position to augment the quantities of supplies by means of the above system. The Government can now stipulate that a particular ration quantum necessary for minimum needs will be supplied at the existing prices. The consumers may be given the option to purchase additional quantities from the Government shops, if they are prepared to pay increased prices for the additional supply. Persons in the high income groups may not mind paying a higher price for certain additional quantities of cereals. In fact, for many it might mean a diversion of expenditure from the black-market. The resources that are now frittered away in the black-market can now accrue to the Government, who can utilise the same for purposes of meeting the additional expenditure commitments arising out of the system suggested above. As the Government is the monopoly buyer as well as the monopoly seller and as there exists already a network of Government shops in most parts of the country, the adoption of the new system will not lead to any additional outlay on administration. Of course, the device of discriminatory sales is suggested by us as a last resort; for any such system of sales may lead to dissatisfaction particularly among those belonging to the low income groups, who are not in a position to pay the increased prices for the additional quantities of cereals, which they may nevertheless require. From the point of view of the community as a whole, it would be advantageous if the resources that are flowing towards the black-market flow towards the Government. If it is believed that black-markets would continue in spite this, it may be preferable for the Government itself to follow a technique of discriminatory sales and thus divert the purchasing power flowing to the black-market, or to the trade channels.

XV. LAND REORGANISATION POLICY

The Approach of the Commission

Among the important policy recommendations of the Commission, we have to include the suggestions in respect of reorganisation of agriculture. According to the Commission, the central problem in agriculture is to change the character of Indian agriculture from subsistence farming to economic farming, and to bring about such changes in its organisation as will introduce a substantial measure of efficiency in farming operations, and enable the low income farmer to increase his return.

The Commission states the objectives of reorganisation as increasing of production and making cultivation more profitable by reducing unit costs and reducing the number of workers engaged in the ordinary operations of farming. The difficulties of Indian agriculture are stated to lie in uneconomic holdings. Unless the unit of management becomes larger than it is at present, there can be no hope of any increase in efficiency. The major factors for securing increase in production are, the application on a wide scale of scientific knowledge and increased capital investment in its different forms. The size of the unit of management on the farms has to be increased so that the limited resources can be utilised in a more efficient manner, and the economies of large-size reaped in full. There are four ways by which the size of the unit of management can be increased. Firstly, land can be nationalised and made available for collective utilisation. Secondly, a ceiling on existing holdings may be placed, and the land in excess of the ceiling may be utilised for increasing the size of the uneconomic holding or for distribution to the landless or for co-operative cultivation. Thirdly, small farmers may be given inducement to become members of co-operative farming societies. Fourthly, the village may be considered as a unit of co-operative management. While claims of ownership are safeguarded through an ownership

dividend, the entire area of the village will be treated as a single farm and divided for cultivation into suitable blocks.

Taking the technique of nationalisation, the Commission rejects it on account of the need to maintain peasant ownership of land in the country. The peasants are the backbone of India's agriculture. They represent the main strength of the tradition of the village community and are the country's most efficient cultivators. On all practical considerations, nationalisation of peasant rights is not a course which can be seriously considered. Even in respect of zamindari areas, the tenants have acquired rights almost equal to that of the peasant owners. Taking the question of putting a ceiling on existing holdings and redistributing the rest of the land in order to form economic units, the Commission argues that such a proposal would raise important problems of finance, administration and management. Whether the State gives compensation, or under another name, rehabilitation grants, the task is likely to be far beyond its resources. The available administrative machinery is not in a position to cope in a systematic manner with the problems of large-scale acquisition. The distribution of the land acquired by individual owners will present numerous problems. Moreover, land which is acquired will be scattered over the village and effective cultivation either by way of collective farming or state management would not be possible. On the larger farms production will fall and for a period at any rate on the other farms also. A decline in production may have a serious effect on the stability of the economy and may lead to organised forces of disruption, and peaceful and democratic change would become difficult.

Co-operative Village Management as the Ideal

The Commission, therefore, turns to the third and fourth alternatives mentioned earlier. It accepts the ultimate objective as co-operative village management. Co-operative

village management includes the following features: (i) The unit of land management should be the area of the village. All the land of the village should be regarded as a single farm for management purposes. (ii) Rights of ownership are recognised and compensated for through an ownership dividend to be paid at each harvest. (iii) Management of the land and of the resources of the village should be organised so as to provide maximum employment to the owners of the land who work in the village, and the workers who are non-owners will receive remuneration for work according to the nature of the work. (iv) Land may be cultivated by individual families or groups of families. Appropriate blocks may be constituted and allotted by the village management body. (v) When two-thirds of the owners or permanent tenants of the village, holding not less than one-half of the cultivated area of the village, express their preference in favour of co-operative management, the entire village should be subject to this system including the land held by the minority.

The Commission commends the system as consisting of several advantages. A larger unit for agricultural operation is provided for. Ownership is separated from management. Agricultural workers who now work for the individuals will work for the village community. Workers in the same type of work will receive remuneration on the same principle. The size of the ownership dividend will gradually change. Internal savings will develop on account of communal management. Under co-operative management, fewer hands are needed for cultivation. This factor imposes an obligation to introduce other forms of work for those who are thrown out of the land.

Joint Management Boards and Efficiency

There is no doubt that the Commission's suggestion of co-operative village management as the ultimate form of organisation in land is based on a consideration of the

difficult problems of agriculture.[1] It also represents undoubtedly a vision for the future. While we accept the merits indicated in the system of management to be introduced, a piece of land reform so radical as is devised by the Commission cannot be accepted merely on the basis of the theoretical merits. Whatever the brilliance of the scheme itself, we must remember that the technique of management suggested has to work in a particular type of social, economic and political climate which characterises the Indian economy. Unfortunately, the Commission has not indicated in any great minuteness, details in respect of such a system of management. Before we test the system in the framework of the economy and go into the question of its suitability for Indian conditions, we might digress briefly on some of the complications that would be introduced even granting that this management system is found to be eminently suitable for Indian rural environment.

In the first place, the most crucial problem is whether the co-operative village management board or authority that has to be established will work in a similar manner as the village panchayats do. The joint village management board would consist of peasants, owners, workers, artisans and all the persons who derive employment from the village. We do not know whether the election to the management board would be based on the principle of each man having one vote, or whether due weightage would be given to persons owning large acres of land. So long as the body becomes a representative body, we all know that the amount of work that such a body can do is always seriously conditioned. In the case of a commercial corporation, sufficient opportunities are provided for large shareholders to be elected directors, so that the ownership interest which is a powerful motive force in the optimum conduct of business enterprises, is

1. The Commission's approach to the problem of agricultural reorganisation has been considerably influenced by the ideas contained in "Poverty and Social Change" by Tarlok Singh, 1945—Longmans, Green & Co. Ltd.

given full scope. In the case of the village management board, on account of the representative nature of the body, there will tend to be no powerful self-interest contributing for optimum utilisation of land. Whatever the defects of the peasant proprietorship system, it provides a powerful incentive for self-interest so that wherever possible maximum results would be obtained for a given piece of effort. At the same time, the system of peasant proprietorship makes provision for the spirit of entrepreneurship and innovation. Granted the supplies of finance and the existence of a minimum piece of land, it is possible for peasants to utilise scientific advance to their own advantage. But the joint village management scheme takes away the motive force of enterprise and efficient management, and substitutes the delay and disinterestedness of the legislative body.

Granting that the system would tend to be a workable one, we have to solve an additional difficulty. The Commission has suggested that reorganisation of the unit of cultivation is necessary as there would be a large-scale potential opportunity for improving output, if the entire village is managed as one unit. The Commission quotes for its support figures in respect of the average size of holdings in India. It is true that an unduly large number of families are cultivating land in small-sized units. But the problem from a national point of view is whether the total portion of land which is thus cultivated amounts to a significant proportion of the total cultivated land and, secondly, in many cases even though the unit of ownership is small, do not the tenants or peasants try to make up for deficiencies by taking on lease additional units? The latter appears to be a common tendency in many villages. To some extent, therefore, the peasants *have* tried to obtain by various devices the advantages that would accrue from a larger unit.

Alternative Ways of Providing Assistance

The Commission argues that the economies that would arise if the entire village was treated as one unit would be

far greater. Capital investment and technical knowledge can be applied to land. If the Commission is thinking in terms of the utilisation of capital investment on a larger scale, the question is how far under the existing conditions of the economy such investments are feasible and possible? Will not large-scale mechanisation lead to the creation of social problems of large-scale labour displacement? We shall discuss presently the social implications of the mere fact of land reorganisation on the basis of the joint village management boards. Are the conditions in the country such that large-scale agricultural implements are available in ready supply? Have we made provision for industries manufacturing various types of capital investment to be utilised in agriculture when joint-village management is introduced. Should peasants be deprived of the right of personal interest in the farm merely because of the need that might arise at some distant date of utilising large-scale machinery on the land to increase output? Even granting that capital investment on the farm is necessary, cannot the same reform be brought about by co-operative farming societies or by the commercial utilisation of machinery? It is not necessary that the peasant should be dispossessed of the right of private interest on land and large-sized owners should continue to have ownership interests merely because a tractor is to be used on several pieces of land. Cannot a tractor be purchased by different farmers each contributing his share? Cannot the Government establish a tractor station collecting rent from the farmers for the use of the tractors? Cannot private enterprise undertake the initiative in this respect if it is found to be profitable?

Let us accept that the economies that would arise on account of a large-sized management would be due not to large-scale capital investment but to the opportunities which would be available for getting finance and credit. Cannot co-operative institutions assist the individual farmers by way of supplies of finance? Should the entire agricultural system be subjected to a radical change, merely because of

certain small economies that would arise on account of such reforms? We suggest that before the principle is accepted by any State, it would be necessary to undertake a practical investigation as to (a) the potential economies that would become actual, if the village is considered as one unit, and (b) whether the same economies could not be achieved if the peasants were assisted in some alternative ways and, (c) what would be the type of losses that would accrue on account of the abolition of the right of the peasant to take maximum interest in his land?

Size and Output

The Commission has suggested that the entire village should be viewed as one unit for purposes of management. This leads us to a number of difficulties. There are different sizes of villages in the economy. What is it that is sacrosanct about the village that it should be the only unit of management? If a particular village is very big, will there not be dis-economies on account of the over-optimum size of management? The Commission has identified an optimum unit of village management as a village. The economic optimum has little to do with the fact that a group of people live together.

We have up till now discussed the issue granting that the Commission's suggestion is workable. But we have now to remove this assumption. The question that has to be answered now is whether under the social atmosphere that is prevalent in the country, it is advisable to continue with large-sized farms retaining rights of ownersip. We find that there is a tremendous pressure of peasant opinion which can be ignored only to the peril of the economy, in favour of the right to own and cultivate a piece of land. Various States Governments have undertaken on their own accord several pieces of land reform calculated to retain the right of peasant proprietorship and to dispossess large landlords of their land. It is true that the process of the breaking up

of the large-sized units of land and their redistribution to a number of peasants might result in a certain transitional loss of output. This too is subject to examination. Unfortunately, there is a common tendency in India to make *a priori* statements, which are not based either on factual examination or on correct deductive reasoning. Sometimes such statements affect the entire core of thinking and come in the way of the proper evolution of policy. For example, we do not have any investigation in India to prove that abolition of landlordism has resulted in curtailing agricultural output. It is not enough to say that agricultural output has declined. We must prove that such a decline is unequivocally due to a given piece of land reform.

Root Cause of Rural Poverty lies outside the Village

Anybody who has deeply thought of the underlying problems of a backward economy like India, will understand that the heavy pressure on land and the continuance of uneconomic units of cultivation is not a disease for which the causes lie in the village. Agricultural pressure and poverty are not due only to the existence of uneconomic units of cultivation. If we only go away from the farms and just look at the entire picture of the national economy, we find that the basic cause for poverty in villages lies outside the villages. The fact that the pace of industrial development has been painfully slow is responsible for the continuance of increased pressure on land. What we want is large-scale migration from agriculture towards industry. If we just keep in mind the economic history of the advanced countries and trace the process of industrial revolution, we find that the problem of agricultural poverty was solved by itself, when it was found that more and more people, formerly creating heavy pressure on land, gradually tended to leave the villages for the industrial area. So long as we continue to maintain the existing rate of population growth and so long as we do not think in terms of expanding the industrial

base of the economy, we can never think of solving the problem of poverty that corrodes agriculture.

Organisational Changes and Labour Displacement

The system of land management that is suggested by the Commission involve displacement of labour to the extent of more than 10 millions of persons. Can we ever visualise a rate of development in the rest of the economy that can absorb this tremendous number of people, who will be gradually thrown out of work, if we mainly concentrate on maximising the monetary contribution from a particular village whatever the cost in terms of social misery. After all, any piece of reform must have an ultimate purpose. Co-operative village management is not an ideal by itself. It is true that it might be workable in a few cases. If its scope is limited to a narrow sector, it is true that the displacement problem that it would create might be insingnificant and might be solved; but if we want to suggest it as a national ideal, let us beware of increasing the social misery in the land and the consequences that would result, if we let loose the forces of large-scale unemployment. If we remember correctly, Mr. Tarlok Singh, in suggesting land management reform, assumed that the rest of the economy would be advancing at such a pace that the problem of displacement would be solved of its own accord. If we look at the figures of industrial employment, we find that in spite of the best opportunities that were provided, large-scale industry was not in a position to give employment to even 50 lakhs of workers at the peak period of the War. How far can our limited industrial structure face the problem of absorbing 100 millions of the agricultural population? What would be the nature of the social calamity within the village if the rest of the economy is not in a position to absorb the labour folk displaced from the village? If on the other hand we argue that the land management scheme would continue to have the same amount of personnel as at present employed in the village, then where is the need for this reform?

In fact, if we pursue the problem at some length we find that the only type of economy that would be realised by the adoption of joint management syetem, under the present circumstances of the country would be that lesser number of workers would be required in the village. This is not a saving of which we can be proud of. Whatever be the conditions, the agricultural sector of the economy so long as the rest of the economy does not expand at a rapid pace, will have to bear the burden of increased poverty. Disguised unemployment in agriculture is one way in which nature brings about an equality of limited resources. The villages up till now have been in a position to bear with the pressure. Let us not aggravate the difficulties by sending the people out of the villages while we cannot provide work for them outside. On an overall point of view, we have perhaps to continue with a certain amount of disguised unemployment in agriculture so long as we are not in a position to expand industrial capacity. Let us be aware that before we expand the industrial capacity, we may burden ourselves with a gigantic problem, whose social implications would choke the very prospect of diverting resources for industrial investment.

Conclusion

Finally, we would like to conclude this section by emphasising another aspect of the problem. The Commission has accepted the principle that the community should recognise ownership rights of individuals in respect of large-sized farms. In other words, it does not want redistribution of large-sized farms. One of the immediate needs of the country today is to hasten the pace of land redistribution. The non-satisfaction of land hunger, which is a structural problem of a backward economy like ours, will lead to grave social pressures and may even lead to large-scale opposition from the rural sector. Whatever be the merits of large-scale ownership of wealth in a non-agricultural form of activity, so long as agriculture continues to be a

way of life, rural opinion which is more and more becoming conscious of the reforms introduced in other countries, and which is gradually releasing itself from feudal bonds, will never tolerate any piece of land reform which does not think in terms of redistribution of land and the splitting of large-sized holdings. The tenant, the peasant and the agricultural labourer constitute today a greater portion of our economy. Any scheme of land reorganisation which is not acceptable to these classes will not succeed. If we are really sincere about improving the lot of the peasant, let us think of alternative ways by which capital equipment, finance and the results of scientific advance reach him in a manner in which he will welcome them and is in a position to take an intelligent interest in the same. After all, the Commission has adhered to the principles of democratic planning. There can be no surer basis for democracy in an agricultural country than the maintenance of the system of peasant proprietorship, wherein each individual owns a minimum piece of land, but is also in a position to take ownership interest in the same. Ownership divorced from control and management, succeeds in the case of industry, wherein most of the activity is of an impersonal nature. In the case of agriculture, the peasant thinks of his land not merely as something which provides him work but also as something which is part and parcel of the very fabric of his life. This is the reason why there is so much of land hunger particularly when the rest of the economy happens to advance at a snail's pace. To tell the agriculturist that he would be granted ownership dividend, but that he would have no right of control over the utilisation of land will be introducing commercialism into a scene wherein it is most ill-fitted. If we want to improve the peasant's lot, let us educate him, let us provide him with all facilities by which he comes into contact with the advances of the modern scientific age. Let us also see that he is trained in co-operative effort. Co-operation does not mean the absence of personal interest. It only means that in some cases where common effort is

necessary, people join together consciously to form a common organisation to solve common difficulties, but at the same time retaining to each the maximum advantages for decentralised use of one's own resources.

After due consideration of the technique of reform to which the Planning Commission has given its assent, we have to conclude that in the present circumstances of the country and also for a number of years to come, we have to be very cautious in introducing the system of co-operative village management in villages. We suggest that the Commission's recommendation should be considered in the utmost detail before the people give their sanction to it. Let experiments be carried out in different parts of the country But at the same time let us remember the social implications of the responsibility that would be incumbent upon the community, if it accepts this ideal. Just because we want to gain some petty short-term advantages, let us not forget the long-term interests of the community. If we think that the short run is the most important, let us be aware that the acceptance of a policy for the short run interests will lead to its own complications at a later stage. So long as the individual peasant is not in a position to decide for himself and cannot make an intelligent choice between various proposals on account of his illiteracy and ignorance, let us be careful in dumping drastic reforms on him on the assumption that we are the best judges of what is good for him.

XVI. DISTRIBUTION OF SPHERES: PRIVATE ENTERPRISE IN A MIXED ECONOMY

Introduction

The Five-year Plan does not envisage any large-scale expansion of Government activities. In other words, it has

not accepted the principle of complete nationalisation of the means of production, nor has it accepted a system of comprehensive allocation of resources. A technique of planning which involves direct allocation of physical resources is possible in a community in which all the strategic means of production are owned by the State. In the absence of State ownership of means of production, the State will have to try to achieve the objectives through a system of controls. In a mixed economy, the controls cannot be as comprehensive as they can be in a system, in which the scope of private enterprise is limited to minor fields. In evolving the technique of planning, the Commission had to accept the policy objectives already stated by the Government of India in the Industrial Policy Resolution of April 1948.

The Approach and Proposals of the Commission

(1) The Commission accepts the statement that planning in a democratic set-up implies the minimum use of compulsion or coercion for bringing about a re-alignment of productive forces. Practical considerations preclude the adoption of a policy of nationalisation. The resources of the public sector will, therefore, have to be concentrated on new lines of activity rather than on the acquisition of existing productive capacity.

(2) As the bulk of the public resources are to be devoted for agriculture and transportation, the development of industries must depend upon the private sector. The Plan does not provide for any large expansion of the public sector in the industrial sphere.

(3) The two sectors should not be watertight compartments. The Commission, therefore, suggests that plans for the private sector should be worked out in consultation with the representatives of private industry so that the plans of the public and the private sectors would present a coherent

picture. The Plan, therefore, aims at creating suitable machinery for such consultation and collaboration.

(4) This machinery includes the establishment of a Central Advisory Council to advise the Central Government on matters concerning the development and regulation of important industries. This Council, consisting of 30 members, will represent the interests of owners and employees of the undertakings as well as the consumers of goods manufactured by the industries. For initiating development in each industry, Development Councils will be established representing the interests of owners, employees and consumers as well as technical experts. These Councils are expected to perform a number of functions, the main objective being to increase the efficiency or productivity of the industries, to find out economical ways of manufacturing products, to improve the services that these industries render to the community, and to help in the organisation of scientific and industrial research as well as in the training of technicians and labour. The Councils are expected to recommend directives for production, co-ordinate production programmes, suggest norms of efficiency, promote standardisation of products as well as better arrangements for marketing, assist in the distribution of controlled materials, introduce standardisation of accounting and costing methods, arrange for collection of statistics, investigate possibilities of decentralisation of production, adopt measures for increasing the productivity of labour as well as for securing better working conditions, and for assisting industries by providing information and advice on various matters. The Development Councils will be in charge of funds raised by the levy of a cess on the industries. The fund will be utilised for promoting industrial and scientific research, for improving standards of production and for the training of technicians and labour.

(5) While the Development Councils will help in creating the organisational framework for the development of industries, the system of controls will have, however, to

continue in order to co-ordinate the working of industries with national needs and priorities and to bring about an optimum distribution of scarce resources. These controls include the following:—(a) No new undertaking involving a capital of more than Rs. 1 lakh can be started, or no existing undertaking can substantially expand, without acquiring a licence from the Central Government. The licence may stipulate conditions regarding the location as well as the minimum standards in respect of size. The Central Government will have powers to conduct investigations prior to the granting of such licenses. (b) The Central Government may cause investigations in respect of any industry where, (i) there has been or is likely to be a substantial fall in the volume of production for which there is no justification ; (ii) there has been or is likely to be a marked deterioration, which could have been avoided, in the quality of an article produced by the industry ; (iii) there has been or is likely to be a rise in the price of any article for which there is no justification ; and (iv) it is necessary to take measures for conservation of resources of national importance which are utilised in the industry. Investigations can also be conducted if the industry is being managed in a manner likely to cause serious injury or damage to the interests of consumers. (c) After conducting investigations, the Central Government may issue directions, (i) to regulate the production according to stipulated standards, (ii) to require the undertaking to promote development of the industry, (iii) to prohibit any undertaking from resorting to practices which would reduce the capacity or the economic value of the concern, and (iv) to control the prices or regulate the distribution of the articles produced by any concern. (d) If the instructions in the directives are not complied with, the Central Government may authorise any person or a Development Council or any other body of persons to take charge of the undertaking and to conduct it in accordance with stipulated standards. The Central Government may cancel the above order when it finds that the purpose of the order has been

fulfilled, and the industrial undertaking will then be handed back to the owner of the undertaking.[1]

(6) The technique of control indicated in the earlier paragraphs will supplement the existing controls in respect of foreign exchange, trade and price as well as allocation of materials. It may be noted that a system of controls exists as regards the allocation of scarce materials like coal, cement and steel.

Objectives underlying the Regulation

The Government as well as the Commission, have been guided by the desire to introduce better standards in respect of the working of industrial undertakings and to regulate the same in the interests of the country. The Government has also thought of the need for bringing about harmony among employers, employees and consumers. Besides, there is the objective to remedy some of the deficiencies and diseconomies associated with the existing industrial structure. The desire to regulate the location of industrial undertakings is based on the assumption that the existing undertakings are not properly distributed in the different parts of the country, and that unless the Government takes an effective step in directing the starting of new industries in different areas, some regions would continue to be without any industrial development, whereas some other regions would manifest characteristics of overcrowding and congestion. It is also the aim of Government to start new industries away from the big cities. The desire to stipulate standards in respect of minimum size is based on the assumption that without regulation the size of the industries would be either too small or too big. The Government therefore wants to bring the broad national interests into the picture, when new undertakings are to be started, or when the existing undertakings are to be expanded.

1. The technique of control indicated in (4) and (5) has been embodied in the Industries Act, which was formulated after consultation with the Planning Commission.

The Government has also assumed powers to conduct investigations whenever it finds that there is or is likely to be a fall in production, a deterioration in the quality or a rise in the prices of the products, or resources of national importance are being malutilised, or undertakings are managed in a manner prejudicial to the interests of the consumers. It must be noted that the Government has introduced these regulations to meet certain conditions prevalent in the country. There have been a number of cases where industrial undertakings have not been managed in the interests of the country. Guided with the sole objective of maximising short-term gains, several undertakings have not hesitated to adopt practices and methods which are detrimental to the interests of the consumers as well as to the long-term interests of the country. Adulteration of products has been common. There have been few attempts to introduce proper standards in respect of products. Foreign importers have in many cases complained about the quality of some of our products. A very common occurrence has been for the industries to manipulate prices and to organise sudden shortages with a view to increasing their profits. To the extent that valuable national resources are being utilised in a fashion detrimental to the interests of the country, our resource potential will suffer and the future extent of development will tend to be limited. A number of evils described above has been more or less due to the lack of a system of efficient management in many industrial undertakings. On account of the persistence of shortages in the community and the continuance of strict import control measures, an opportunity has been given for unscrupulous sections to manufacture spurious products or products of inferior quality and thus to make the best out of the existing circumstances. Many undertakings have also not taken the trouble to give proper training facilities and opportunities for technicians in their concerns. The amount of resources that many undertakings have set apart for encouraging industrial research is meagre compared to other countries. That is why the Government

has also undertaken powers to levy cesses and to entrust the Development Councils with the task of developing research and standardisation methods, which would be an advantage to the industry as a whole. Industrial undertakings working in competition with others are not in a position to visualise by themselves the importance of common economies that could be investigated only if the undertakings worked together. There is, therefore, need for a common authority which can look beyond the individual interests of each undertaking.

Problems arising out of the Industries Act

There is no doubt, however, that the Industries' Act has attempted to make provision for a comprehensive system of regulation in regard to the major industries of the country. Whatever the intentions underlying the Act, it is possible that such stringent restrictions on the working of private enterprise may lead to certain undesirable trends. In this connection, the following problems may be posed :—

(1) What is the guarantee that the regulation regarding the issue of licenses for the starting and expansion of industries will be administered in a manner which is conducive to the national interests ? The power to issue licenses for new undertaking is based on the desire not to permit the utilisation of scarce resources in socially less urgent fields. At the same time unless the administrative machinery improves, there will be uncertainty regarding the permission for the starting or expansion of concerns. Formerly the Government intended to appoint a Central Board for carrying out the functions of the issuing of licenses and the conducting of investigations. Inasmuch as the Government has given up the idea of a Central Board, which could have co-ordinated the various types of control measures which are concerned with industry, and the Central Advisory Council is not empowered to go into the question of the issue of licenses and the stipulation of minimum standards, there is a possibility that the existing system of unintegrated and unco-ordinated controls will continue. As the proposed Tariff Commission has also been invested with similar powers to conduct investigations etc., the problem is as to how the functions of the Development Councils will be co-ordinated with those of the Tariff Commission.

(2) What would be the effects of the restrictions in the Act on the volume of new investment as well as on the type of new investment ? How far will the increased restrictions lead to the diversion of resources from investment towards speculation, real estate building, luxury consumption, etc. ?

(3) How far is the Government correct in stipulating conditions regarding size and location ? Is it advisable under the existing conditions of the country to introduce conditions for decentralisation of industries ? How far would it be appropriate to ask the industries to be located in areas which do not provide opportunities for profit ? Until the Government is prepared to bear the loss of the new industry which is required to forego the advantages of external economies, available in large industrial centres, it would not be feasible to issue restrictions regarding the location of concerns. Is the Government in a position to assume that at the present moment, it does not matter to the community, if a firm refuses to establish a factory in a place, which the Government suggests, instead of in an area considered financially attractive by the promoters ?

(4) What is the minimum size for a new concern ? What are the conditions that govern the stipulations regarding the minimum size ? The size of a concern depends upon various factors, all of which are subject to change. Is the regulating authority in a position to adjust itself to these changes ?

(5) What is the guarantee that the powers to conduct investigations when prices rise and the quality of the product

deteriorates, will be utilised in a beneficial manner ? If the Government arms itself with powers to take over the management, what is the guarantee that the administration of controls will tend to be impersonal and in interest of the community ?

(6) It is true that the Government is motivated with the desire to direct industrial development in a manner in which the social interests are harmonised with private interests. But to the extent that Government depends upon private enterprise for industrial development, unless the controls are efficiently administered, the atmosphere will not be conducive to maximum development. In a country wherein private capital continues to be shy in spite of the best possible attraction, would it be advisable to ordain that industries would be permitted to be started and to function only if they fulfil certain rigid conditions ?

The Complaints of the Private Sector

It is contended that the economic policy of the Government of India is not sufficiently conducive to the creation of an atmosphere in which private enterprise can put forth its maximum efforts for capital formation. The pros and cons of the difficulties of the business sector may be analysed as follows:—

(1) The private sector feels that the capital value of invested property may not be recovered in future as there is uncertainty about the future economic policy of the Government in respect of nationalisation. This was a standing complaint for a long time, and the conflicting statements of several persons in authority tended to confuse the issues. The Government gradually realised that a clear-cut statement regarding the distribution of spheres between private and public enterprise was necessary, and the Industrial Policy Resolution was issued in April 1948. As is well-known, the Policy Resolution demarcated economic activity

into four fields. In the first, the Government alone is responsible for ownership and control of enterprises. The industries included in this category are, arms and ammunition, atomic energy and railways. In the second field, industries like coal, iron and coal, aircraft manufacture, etc., are included and the State has declared its intention to secure the co-operation of private enterprise in this field, though the initiative for further expansion would rest upon the State. In the third category, several major industries are included, which are subject to regulation and control by the Central Government. The rest of the industries are presumably left for free expansion, though the Government has reiterated its right to acquire any undertaking, if it becomes necessary in the public interest, and also to intervene whenever the progress of an industry under private enterprise is not satisfactory. It will be noticed that in principle the Government has not given up the idea of nationalisation, though in practice the ideal has already been suspended. It is true that the nationalisation of some service industries, like electricity generation as well as road transport has taken place. Even here, it may be argued, whether it might not have been advisable for the Government to utilise its limited resources for extension of electrical generation as well as of road transportation services, rather than for State ownership of existing concerns. In a backward economy possessing limited resources for utilisation in investment, and under conditions when the quantities of resources available to the public sector are limited, it would be prudent to concentrate public activities in new fields of public importance. From the point of view of accelerating the pace of development, it is necessary to lay stress upon the establishment of several capital intensive industries, which are not generally attractive to private investors. Even in the field of road transport, the State could have confined its activities to those areas and regions where private enterprise was not already serving the community. There is of course, a temptation to extend State ownership only to those fields

where there are prospects of assured gains. The fact that Road Transport Corporations in some States have been able to make profits, does not necessarily indicate, that these concerns are run in an efficient manner, and that it was justifiable on the part of the State to take over these enterprises. The assessment of the relative efficiencies of State enterprise as against private enterprise is an extremely difficult one. On account of the inflationary conditions in the country, and also on account of the inelastic nature of the demand for the products or services of States enterprises, these concerns have been able to show good revenues. The real issue is whether private enterprise could have done better in these fields, and whether the resources of the State utilised in them could have been better utilised in other spheres. It must be remembered that the important issue is whether the community would have had the benefit of these services in spite of State ownership or not. Even if it is proved that State enterprises have been more efficient, nationalisation could not be justified, unless it is proved that the resources spent on them would not have yielded larger additions to the benefit of the community in other fields.

The actions of the Government seem to have led private enterprise to think that there was uncertainty regarding the capital values of their property. In this connection it must be remembered that it will not be possible for any Government in a democratic country to give a categorical assurance that nationalisation will never take place. The Government in power can only speak about the policy of the party, and for the period during which it is in power. Moreover, the extent to which public attitudes regarding State ownership of enterprise will vary depends upon the degree to which private enterprise discharges its social responsibilities. It is therefore, necessary that the businessmen and industrialists in India should seriously think of the social responsibility of private enterprise in a developing economy and the ways in which they can be discharged. It is unreasonable to argue

that unless the Government gives a categorical assurance regarding nationalisation, resources will not be invested.

(2) It has also been a common complaint that the working of private enterprise has become difficult on account of the large number of controls. As the Commission itself has remarked, the opinion of different sections of the public on controls varies. The consumers of raw materials like to have control over the supply of raw materials lifted, but will not relish the control over the prices of manufactured goods and *vice versa*. Each industry wants that the controls which come in the way of the maximisation of its profits should be removed. A considerable portion of opinion against controls is based on the lack of appreciation of the necessity for controls in a shortage economy like ours. The Government has serious social responsibilities to fulfil. The limited resources of the community must be utilised only in those fields wherein production is largest. There can be no room for the lifting of price controls until productive capacity has expanded sufficiently to meet the demands of consumers. It is true that there has been considerable lack of co-ordination in the working of controls as well as in the formulation of the control policy. The Government should make efforts to remedy the deficiencies in the control mechanism. As pointed out earlier, the Planning Commission has recommended the creation of an Advisory Council for prices. We have already suggested the need for close co-ordination between the Planning Authority and the trade control machinery. Under these conditions it would be helpful if private enterprise co-operates in the efficient working of controls rather than plead for their abolition. In spite of the existence of corruption and loopholes, the system of controls has succeeded in providing adequate supplies or raw materials and consumer goods to a major section of the population. The efficient working of the economy will be seriously impaired if the controls are lifted, and any step towards decontrol will create such an amount of public suffering

and agitation that more drastic regulations on the working of private enterprise would become necessary.

(3) There is some truth in the view that the working of private industries as well as the starting of new enterprises heve become unprofitable on account of the increased welfare commitments imposed by the State. Legislation in respect of labour, housing as well as profit-sharing has reduced the margin for profits. But the attitude of private enterprise should not be one of resistance and opposition, for it must be remembered that industrialisation in a backward economy under modern conditions imposes certain obligations on the part of private enterprise. To the extent that these responsibilities are not shouldered, the attitude of the public regarding private enterprise will tend to change. It would be therefore graceful on the part of the industrialists to reconcile themselves to the changing trends and to make voluntary adjustments so that the labourers may feel that the benefits that they get, are a result of voluntary transfer rather than of State action.

(4) Private enterprise in India has been complaining that the scale of direct taxation has reached a level equal to that in Britain. In this connection it must be remembered that it is not correct to compare the conditions in backward countries like India with those in advanced countries like the United Kingdom. Increased direct taxation becomes necessary as the responsibility of the State increases. If the resources available through the borrowing programme are limited, the Government has no alternative but to resort to direct taxation in order to expand public investment. Moreover, the increased social responsibilities of modern Governments make it incumbent that the higher income groups should contribute larger resources for public funds. It is, therefore, not correct to argue that unless taxation relief is granted, resources would not be diverted towards capital formation. In fact, there is no guarantee that even if some tax relief is granted, resources will be diverted

towards capital formation and not for consumption or speculation. Having been accustomed to large profits during the War period, some industrialists have not yet reconciled themselves to the fact that our country is not in a position to afford the same level of profits under the existing conditions. In this connection, it is not prudent to compare the profit levels in different countries and to point out that in India the level of permissible profits is less. After all the capacity of an undeveloped country like ours to offer rewards for certain given enterprises is bound to be limited in character and would tend to be less than what is the case in other countries. The industrialists of India should think of the prevailing conditions, such as the colossal poverty in the country. People with large incomes are few in number, and it is only perhaps they who are in a position to invest their resources in industrial ventures. It is up to them to understand that the rate of reward for their resources is bound to be conditioned by the circumstances of a country and its paying capacity.[1]

A scale of reward over and above the country's ability to pay will only lead to social pressures. Private industries in India should not ignore the important fact that the atmosphere for the functioning of private enterprise in backward countries, undergoing the process of industrialisation, is bound to be different from what it was in Western countries. If they forget the conditions of the country and pitch their demands to a high level, it would only lead to a reaction against the very concept of private enterprise as such. It is increasingly being recognised today that the ownership of property and the existence of inequality of incomes can

1. On the other hand, the rate of permissible profit in a country will determine the extent of attractiveness for foreign investors and thus affect the flow of foreign capital. A low rate of profit will, therefore, have more influence on the rate of flow of foreign capital than on the rate of new investment by indigenous sources in the country. We assume of course, the continuance of restrictions on large-scale outlow of capital from India.

be tolerated only if they have a functional basis. To the extent that the people with large incomes do not tend to utilise their resources for purposes of national betterment, and to the extent that they follow unscrupulous methods and do not respond to the call of the country, they are only adding fuel to the fire of animosity against people with large incomes.

Factors Retarding Industrial Development

It would be interesting to indicate the nature of the factors that are actually coming in the way of industrial development. One of the first essential requisites for the starting of any industrial establishment is that there must be some persons in the community who are in a position to envisage the need for new establishments, which will lead to a larger output or to the production of the same output at lesser costs. In other words, the industrial progress of a community dependent upon private enterprise, is closely conditioned by the supply of entrepreneurs. It is an unfortunate fact that in India the number of entrepreneurs, who are in a position to conceive of new combinations of factors of production, or of new processes leading to a reduction in the cost of production, or, in other words, of methods leading to increasing returns, is very limited. A fact which is rarely noticed in this connection is that to a large extent the ownership of wealth in our country has been concentrated in the hands of a limited class, which as a rule, unfortunately does not possess the enlightenment as well as the pioneering vision necessary for the starting of new industrial ventures, which alone can develop the economy. The type of entrepreneurship that exists in India is interested in short-term gains, and is not motivated by a desire to face uncertainties, and to utilise the capital resources in long-term projects. In a developing economy with a broad-based structure, wherein the distribution of incomes is not heavily weighed in favour of any group, the

process of economic development is characterised by a redistribution of income among different individuals. To use the apt analogy of an eminent economist, the rich business group in a developing society can be compared to a first class hotel, wherein the persons residing will be gradually changing. Moreover, it is also unfortunate that the rich groups in India, particularly among the business classes, have not paid sufficient attention to the need for educating themselves or their children. As a consequence, one wonders whether any rapid economic progress in the country can take place, if we continue to depend upon the whims and fancies of the members of this small group. It is in this context that the constitution of Development Councils may help in the evolution of a consciousness on the part of the capitalist community that the working of private enterprise should be closely attuned to social needs. If the Development Councils help to enlighten the existing capitalist class in the adoption of better techniques as well as in the opportunities available for industrial exploitation, they will have served an extremely valuable purpose.

In the second place, in the quality of entrepreneurship available in the community is not of the optimum variety, then unless financial institutions exist with a view to supplying the capital requirements of those persons who are in a position to conceive of new projects but may not have the necessary finances, the industrial progress of the community will be hampered. The existence of financial institutions frees the community from dependence on any one group. But it is only recently that attempts have been made in India to establish finance corporations with a view to supplying the capital requirements of new entrepreneurs. Pioneers of bold ventures inasmuch as they involve a great degree of risk-bearing will not be in a position to get adequate capital from the market. That is why some form of assistance in the initial stages either by the banks or by specialised institutions becomes necessary. Here also, the outlook of the finance corporations must be broad enough to meet the

long-term needs of the community. It will not be advisable to place a ceiling on the maximum amount of capital that can be lent for several of the long-term projects requiring large initial capital. In the second place, some form of subsidy may have to be given in the initial stages so that the entrepreneurs may be in a position to carry on till the project comes into full operation

In the third place, even granting the existence of entrepreneurs and adequate supplies of funds, unless entrepreneurs are able to locate their projects in appropriate places as well as to formulate plans involving minimum costs, their products will tend to be highly priced. It is in this context that the need for Central Information Agencies, which help in the investigation of the exploitable opportunities and the ways in which costs can be minimised, are of great assistance. The establishment of Development Councils can perform this function for existing industries, whereas some new form of agency may be necessary for the establishment of new industries.

It is also necessary to assure the industrialists of adequate supplies of capital equipment as well as of raw materials. To the extent that the import policy tends to be subject to fluctuations unco-ordinated with social needs, the country would tend to lose. The import control machinery as well as the internal distribution machinery should, therefore, be closely geared to the task of encouraging the establishment of undertakings and to meet their requirements.

To a considerable extent the costs of production of many of the industrial ventures can be brought down provided management is efficient. The existing custom of employing persons in key positions in industries on grounds other than their efficiency needs an early change. The burden of inefficiency is not being fully brought out as the community continues to face shortages, and as imports are restricted. A serious drawback of several industrial units in India is that there is no incentive for the management to bring down

the costs of production. The Development Councils should also be authorised to conduct inquiries regarding the need for incentives for management as well as for technical men in industrial undertakings

It will be thus seen that it is possible to accelerate the pace of industrial development provided attention is concentrated on removing the impact of several retardatory factors described above. It becomes necessary, therefore, to introduce a technique of positive controls rather than a negative system of restrictions in the field of industry. It is not enough if resources are prevented from being utilised in unprofitable or socially less urgent ways. It is also necessary to take steps to see that the resources flow, as far as possible, towards those fields which are relatively more beneficial to the community.

Need for a Change in the Outlook of the Capitalist Class

Unfortunately in India the behaviour of some businessmen cannot be considered to have been above board. In spite of the Government's efforts to offer them the maximum incentives, the capitalist class has continued to ask for more and more. At the same time they have continued to be shy so far as enterprise is concerned. Such an atmosphere is not conducive to the larger interests of the country as well as the interests of the particular class itself. Instead of utilising their wealth on long-term schemes or on industries, a number of capitalists have been quick to speculate at the least possible opportunity. Speculation under the existing conditions of the country has been constantly aggravating the problem of shortages. A number of businessmen have continued to evade taxes in spite of the repeated appeals of Ministers. Some of the capitalists have not yet thought of introducing modern methods of business and cost accounting, as well as the latest technical devices in their factories and offices. With few exceptions industrialists have not voluntarily thought of the interests of the labouring

class. The Government had to bring home to them the need for labour welfare services by legislation. Very few Indian industries spend any significant amount on research, nor do they give adequate opportunities to trained young men from the Indian Universities. The main aim appears to be the making of the largest profits in the shortest period, irrespective of the method. It is no wonder that the harassed Government has been forced to pass omnibus legislation and in some cases had also to promulgate ordinances in order to prevent the mischief that is going on in some sections of private enterprise. The only commendable feature is that there are still among the capitalist class persons who have been untouched by the type of abuses described above. If only the honest section among the businessmen can come forward and bring to book those who deviate from the straight path, there may be no need for the Government to think in terms of legal restrictions.

The Outlook for Enterprise in a Mixed Economy

In the above paragraphs we have been critical of the attitude and behaviour of some sections of private enterprise. Such criticism is warranted in the interests of the future well-being of private enterprise itself, let alone the interests of the other sections of the country. The capitalist class must be made to realise the nature of the social atmosphere in which the Government of an undeveloped economy has to function. To the extent that the behaviour of private enterprise leads to resentment and bitterness among large sections of people, it will become difficult for even enlightened and influential leaders to persuade the public not to favour drastic measures of control, or even expropriation It is true that the concept of 'mixed economy' is vague and imprecise. By its very nature there are bound to be frictions and difficulties in the actual working of such an economic system. But let us remember that it will never be possible to go back to the era of *laissez faire*. Nor is it advisable

to embark on nationalisation of all activities. In the first place, the limited capital resources of the Government are more urgently required for important public projects. Secondly, unless suitable administrative personnel is trained, nationalisation will tend to lead to inefficiency in operation. Thirdly, to the extent that the Government cannot undertake lager responsibitities in the industrial field, it would be advisable to permit private enterprise to work on its own, and thus keep up the level of general economic activity. Fourthly, there are several fields in which private enterprise can be more efficient than State organisations. Above all the justification for a mixed economy is broader in scope. The people of the country may not like complete collectivisation of all activities, inasmuch as a possible corollary of such a type of economic organisation would be the destruction of some of the most highly cherished ideals and individual preferences. In theory we can conceive of the co-existence of nationalisation of all means of production and a democratic framework. But in practice large-scale control over the economic activities of individuals cannot be divorced from control over their political opinions and activities. The maintenance of a certain degree of freedom in economic relations and activities is, therefore, a necessary pre-condition for the successful maintenance of democratic ideals in the political sphere. The undeveloped economies have to make a delicate choice in this respect. They may go the whole hog for collectivisation, and then lose once and for all the cherished and noble values of life, such as freedom of the individual. Some of these countries have only recently acquired political freedom. With political freedom, has also come the consciousness that rapid economic progress cannot be achieved in an easy manner in a couple of years or even decades.

The people of these countries had been all along accustomed to correlate foreign rule with the prevalence of poverty and misery in the economic field. Though foreign political domination has disappeared, poverty and misery

have not yet gone, and the standard of living continues to remain at depressed levels. The impatience of the public to get rid of the corrosive effects associated with poverty and unemployment generally leads to an all-out attack on the Government, which is not in a position to improve immediately the conditions of living. On account of the lack of education in the masses, it is easy for interested parties to draw attention to the lessons of some other countries, where the standard of living was increased by means of comprehensive Government efforts. These efforts also included large-scale changes in the organisational structure of the country. Means of production were transferred to State owenrship. From this an impression is created that these organisational changes alone were responsible for economic prosperity. The existence of glaring inequalities in wealth and income in backward countries encourages the propagation of such views. It is only those who are closely acquainted with economic realities that can appreciate the error in the above argument, which mixes up changes in production brought about by increased capital formation with changes in the social atmosphere brought about by organisational measures. Mere organisational changes, in the absence of efforts for expansion in productive activity, could not have brought about economic improvement. That the Governments in these countries had to adopt comprehensive programmes of austerity such as several restrictions on consumption pressures, that the period of austerity was prolonged for quite a long period, and that the people, willingly or under pressure, acquiesced in the system of austerity and restrictions, is very rarely brought to the notice of the ignorant and easily gullible masses. The fact that the economic background in different countries is different is overlooked ; and the fact that a country like India has to grapple with two serious problems, *viz.* population growth and food shortage is not properly appreciated. The existence of widespread ignorance in economic matters, even in high quarters, leads to the creation of an atmosphere wherein the

amount of impatience increases, and the Government finds it increasingly difficult to continue with its programme of development and measures of reform. No wonder that most people tend to go away with the impression that the acceptance of the ideal of mixed economy is at the root of all evil, and once the State accepts responsibility for all productive activity, the millenium would dawn. It is only those who are well acquainted with the limitations of the Indian economy, that can realise the error as well as the danger lurking in such views and attitudes.

Under these conditions, if the private sector continues to act in a manner calculated to rouse the bitterness and passions of the public and to endanger the long-term interests of the country, it will be difficult for the balanced sections of the public to stem the tide of impatient social opinion. It is left to the private sector to demonstrate that a mixed economic system can and will work efficiently, and in a socially desirable manner. Private enterprise in India does not want nationalisation ; but it is also not ready to accept the corollary of non-nationalisation in the form of increased controls. The alternatives are not between a mixed economy and a free enterprise economy. The alternatives are, between a controlled mixed economy and a completely collectivistic economy. Private enterprise in the country is on its trial. It must rise to the occasion ; accept the challange of the New order, adjust its methods so that they become more acceptable and thus prove that it fulfils a socially desirable function. In the alternative, it must be ready to fall for good.

It is in this context that businessmen and industrialists, both small and big, must start thinking aloud about the role that they can profitably play in the new environment and the extent to which they can increase public sympathies towards them by honest behaviour and by efforts to curb those particular groups,. who are responsible for the abuses characterising private enterprise today. Ultimately it is only

the people alone that can give private enterprise a place in the sun. It is therefore necessary that industrialists should reconcile themselves to lower profit margins, should concentrate more on quality production and should utilise resources for purposes of long-term investment. The only sanction underlying profits is that the industrialist undertakes risks and faces uncertainties. But how many of our Indian industrialists can be real entrepreneurs and how many can have the right for profits as a functional reward? How much of the rewards that they get today is due to shortages and to inflationary conditions in the country and how much is due to real enterprise? After all, an under-developed country like India has to go through a long period of austerity to achieve progress. In this no class can be exempt, certainly not those with huge property and large incomes.

State Trading

Dealing with the problem of allocation of spheres of activity between the private and public sectors in the field of trade, the Commission makes out a case for State trading. The Commission's argument is based on the following reasons: In countries operating on small commodity margins, resources generally tend to go into the distribution of goods rather than on their production; investment in trade rather than in industry is popular because it yields larger and quicker profits. Beyond a certain point this tendency comes in the way of development. The problem may be tackled either by the organisation of trade on co-operative lines or by the establishment of State Trading corporations. If State Trading corporations are established, the State will be in a position to divert to itself the profits that might otherwise have gone into unproductive investment. State trading will prove a useful corrective to private trade and help in the regulation of prices of certain commodities subject to wide fluctuations. The Commission recommends that a beginning in this direction can be made in the field of export trade.

It may appear paradoxical that the Commission has favoured the utilisation of the resources of the public sector on nationalisation of distribution, while it has suggested that the State should keep aloof from the nationalisation of production. As the Commission's analysis and arguments are brief, and not very clear, it may be relevant in this connection for us to examine in some detail the issue of State trading. At the outset it may be pointed out that it is not necessary that resources in backward communities should be diverted relatively more towards trading channels. The Commission has in its mind the special conditions existing in our country, which have given a good opportunity for trading functions on account of the continuance of shortages and high prices. In any community there will be a certain balance in the distribution of resources amongst various fields. There cannot be more of investment in trade than the conditions of production and consumption warrant. But when shortages continue in an economy and the Government does not adopt a strict policy of price control, the trading community would be in a position to reap large gains owing to the price increases. In fact as the productive system continues to be inelastic and the level of output does not alter, trading groups have good prospects for large incomes. This does not mean that resources are being diverted from investment towards trade. It is true that in spite of an increase in the incomes of the trading and the business classes, increased resources do not flow towards investment. The problem, therefore, is as to why the increased incomes of the trading classes do not lead to larger investment rather than the tendency of increased resources going towards trade. It is necessary that we should be clear on this point; for, a proper appreciation of the difficulties that beset investment will help in the formulation of a policy which aims at creating an atmosphere favourable for investment, so that the increased incomes of the trading and the business group can flow towards investment. It is a fundamental condition of a backward eco-

nomy that on account of the lack of sufficiently large number of entrepreneurs and the existence of a large degree of uncertainty associated with long-term investments, capitalists would tend to avoid projects which require large capital and which mature after a long period of time. It is, therefore obvious that resources would tend to be utilised in short-term schemes rather than in long-term projects. In order to remedy this, the appropriate policy should be to remove the impact of uncertainty and to provide favourable conditions for capital intensive projects. Merely because of the fact that the State takes over the function of distribution, it does not follow that private individuals will utilise resources in investment. The State, however, would be in a position to get for itself the increased profits formerly obtained by traders. But if the State wants to keep the prices down, then it will not be in a position to reap large profits. If it denies to itself the advantages arising out of shortages and fluctuations in supply, it will not be in a position to divert resources for investment. If the State accepts the objective of large gains, then the profit margins will not be reduced and the prices would be kept high. Consumers would not benefit from State trading. If the Commission had argued for State trading on the ground that the State by maintaining high prices would be in a position to get control over financial resources, that are now going to private traders, and so would be in a position to utilise these resources for investment, one can understand the logic behind the argument. But if the Commission argues that the objective of State trading corporations or organisation of trade on co-operative lines should be to bring down prices and to reduce profit margins in trade, then obviously resources would not be available for investment. Consumers would tend to gain. We cannot, therefore, accept two conflicting objectives in making out a case for State trading.

From the broad national point of view, the establishment of State trading corporations would tend to result in

several advantages. Products could be standardised and by following honest practices the goodwill in our export markets can be kept up. Any sudden differences in external and internal prices can be immediately mopped up for utilisation for the general benefit of the community. The establishment of State monopoly organisations would lead to several advantages both in buying as well as in selling. It is also possible to pursue the technique of discriminatory pricing and to gain several advantages. At the same time, it must be noted that as the type of talent necessary for trading may not be available in the Government services there is a possibility that the corporations would not be efficient to the required extent. The most important issue is as to whether the State would be in a position to procure for itself the large amount of working capital as well as fixed capital necessary for the starting of State trading corporations. Moreover, if trading corporations are set up with a view to making gains, when price trends are unfavourable, the corporations will run into losses and the burden of the losses will have to be borne by the entire community. This possibility is not very remote in the case of export trade How far would the Government be prudent in concentrating on nationalisation of distribution rather than on production, and how far a system of nationalised distribution would work in a system in which production continues in private hands, cannot be assessed unless the issues are fully examined. Besides, the Government has laid down that resources should be utilised for new activities rather than for the nationalisation of existing ones.

The above arguments emphasise the need for caution in formulating policy on meagre analysis and investigation. There is one field, however, in which State trading becomes a necessary element for the successful working of the entire system. This pertains to the field of the distribution of agricultural commodities. This is so in order to free the community from the uncertainties associated with private

trade particularly in respect of cereals, so long as there is a large gap between aggregate needs and aggregate supplies.

Conclusion : The Need for Co-ordination

The above review of the problems arising out of the distribution of spheres of activities between the private and public sectors illustrates the many complexities that are bound to arise in a system of mixed economy. It is obvious that there should be complete understanding between the two sectors and an earnest desire to co-operate in the national interests. The line of demarcation between the two spheres cannot be exact; there are bound to be undefined areas of contact, which if not developed in a healthy manner, may result in conflicts, bitterness and disappointment. This means that the Government as the dominant party should use its authority and powers with discrimination and tact, in a manner by which the best in the existing scheme of things can be utilised. On the other hand, the capitalist class should realise the imperative need of rapid adjustment to the new environment in their own interests and show both in theory and practice that they are willing to play their part in the New Order cheerfully. There can be no rules or laws for this change of attitude on both sides; it can be achieved by eliminating areas of dispute and misunderstanding in practice and by evolving a code of behaviour both by Government and capitalists suited to the need for that healthy co-operation between the private and public sectors which alone can lead to success. If this is not done in the proper spirit in time, mixed economy will have to give way to a different system.

XVII. ORGANISATIONAL NETWORK

The New Organisational Framework

The successful functioning of a plan depends to a large extent upon the existence of a suitable network of organisations in order to implement, co-ordinate and supervise the actual working of the different projects and schemes, and also to make timely changes in the light of experience. Both from the point of view of successful implementation and the need for introducing flexibility, the technique of organisational changes is an important aspect of planning. The Five-year Plan has suggested several organisational changes. As it is to be worked in the framework of a democratic federal polity, in which economic functions are allocated both to private and public sectors, the Commission had to frame a type of organisational framework which would fit in with the basic values of the community.

The first problem in any planned economy would be that of the establishment of a Central Planning Organisation and the determination of its personnel, scope and functions. The Commission has stated that there is need at the Centre for a Planning Organisation linked to the Ministry of Finance and Economic Affairs, and at the same time enjoying a position of influence generally and in particular with the Central and State Governments. To co-ordinate the work of the Central as well as the State Governments, the Commission has suggested the establishment of a National Development Council with the Prime Minister of India and the Chief Minister of States as members. In each State there is need for a small planning organisation or an inter-departmental Committee of Secretaries and also a non-official advisory body. In the implementation of a State plan, the Commission lays emphasis on the constitution of District Development Boards comprising of officials and non-officials. In the field of rural planning, as we shall see presently, the Commission has made provision for

Development Blocks, Extension Officers, Village Production Councils and Registered Farms. In order to co-ordinate the work of the private sector with the public sector, Development Councils for each industry will be constituted. There will also be a Central Advisory Council of Industries to advise the Government on the development of various industries.

The Commission has also suggested the constitution of several new organisations for different branches of economic activity. For formulating price policy, the Commission has recommended the constitution of a Price Advisory Council consisting of technical experts. For the proper working of cottage industries, special statutory corporations or Development Boards have been suggested. For selection of irrigation and power projects, an all-India Committee constisting of engineering experts is to be constituted, whereas for the development of minerals, a Technical Co-ordination Committee is suggested. For the development of housing, the constitution of National as well as Regional Housing Boards is recommended, whereas for co-ordination of all building activities, the establishment of a National Building Organisation is suggested. For the efficient conduct of the various State industrial enterprises, the Commission has suggested a Central Board consisting of five or six full-time members, assisted by one or two industrialists on a part-time basis. For establishing harmonious relations between labour and capital, the Commission recommends the constitution of Work Committees in each industry. For solving the problem of rationalisation the establishment of a Joint Consultative Board is suggested. For all problems dealing with wages, the Commission recommends the establishment of Wage Boards.

Reorganisation of Rural Extension Service

The most interesting suggestions of the Commission, however, are those in connection with rural development.

Intensive work in respect of Rural Extension Service is to be organised at the village level for a small group of villages and for a larger block of fifty or sixty villages The block of fifty or sixty villages is to be described as a Development Block and will be in charge of an Extension Officer, who will be the common agent for all the departments dealing with rural development. He will have under him five or six officials each in charge of a group of ten villages. He will be assisted by the person in charge of the co-operative supply centre, from which all supplies will be distributed in the Development Block. Above the Extension Officer, each Department will have its own technical officers. At the district level, the Commission suggests the formation of District Committees with the Collector as the Chairman. In order to assist the Collector, the Commission has suggested the appointment of a senior officer to work as the District Development Officer. The apex of the machinery of rural development in each State will be the Development Commissioner for the State, who will also act as the Secretary of the State Rural Development Board At the village level, the Commission has suggested the formation of Village Production councils, which may be sub-committees of the local panchayat. The Government should confer powers on the Village Production Council to cultivate fallow land and to improve agricultural practices. The Council is expected to frame programmes of production for the village and to assess results attained at each harvest. The Council will act as the channel through which all governmental assistance will be distributed in the village.

In order to enlist the co-operation of non-officials, the Commission suggests that in each group of ten villages there should be a non-official committee. For the Development Block also, there will be similar non-official committees. At the district level there should be a District Development Board. The Commission has suggested that the co-operation of social workers should be enlisted for carrying out the programmes of rural reconstruction. The workers

should be given suitable financial assistance. On account of the cost involved in introducing the new machinery in all parts of the country, these organisational changes should first be introduced in the irrigated areas and in areas of assured rainfall. At the same time one Development Block at least should be organised in each district.

Another interesting suggestion of the Commission is that which pertains to the establishment of Registered Farms. All holdings above a prescribed level should be organised as Registered Farms, and holdings below the prescribed level should be brought together increasingly in small co-operative farms. Under the existing techniques, for the bulk of the land under cultivation, about six times the size of the economic holdings may be found to be a unit of management offering the largest economies. This may be a convenient minimum size for a Registered Farm. The owners of Registered Farms will be under the obligation to follow approved scientific methods on their farms, to sell improved seed and surplus grains to Government and to ensure minimum wages and guaranteed terms of employment to agricultural workers. For holdings below a particular size the formation of co-operative farming societies is suggested. Preference should be given by Government to such societies in the matter of distribution of various types of aid. The Commission expects that through these organisations, it would be possible to develop a system of agricultural planning, which links the peasant and the worker with the production goals described in the National Plan.

National Volunteer Corps

In order to get as large a degree of public co-operation as possible, and in order to arouse mass enthusiasm for the working of the Plan, the Commission has suggested that a National Volunteer Corps called the Bharat Seva Sangh, should be constituted. The establishment of such an association providing an outlet for enthusiastic social workers will

introduce a healthy influence in our political life, making possible a greater degree of co-operation between official and non-official efforts. The feeling that the common people are having an active share in the various parts of the Plan will introduce a democratic incentive into the system.

Deficiencies in the Organisational Network

It will be seen that the Commission has attempted to establish several organisations in order to maximise the efficiency of the planning efforts. It has attempted to give due importance to the need for decentralising responsibility and initiative. As stated earlier, it has made a sincere effort to link the work of the peasants in the remote villages with the national planning efforts. The assumption is that with the constitution of the new organisations, the rate of response from the peasant for governmental programmes of assistance would be larger. At the same time, the Commission seeks to obtain the economies of large-scale management by the establishment of Registered Farms and Village Production Councils. It is possible to criticise the organisational network as deficient in some respects, but ultimately the decision, as to whether a particular organisation is appropriate or not, will have to be made on the basis of administrative convenience and efficiency. The suitability of the organisations suggested by the Commission will be indicated in the course of their actual working. It may be, however, pointed out that by making provision for the establishment of a National Volunteer Crops, the Commission has contributed a new idea into the concept of democratic planning. The following comments on the organisational structure have been made with a view to suggesting certain desirable improvements:—

(1) It is obvious that the Commission does not envisage the possibility of the Central Planning Organisation having wide executive powers. It is of course difficult in

an economy like ours to give any organisation such powers. But to the extent that the planning organisation becomes only an advisory body without any corresponding power to see that the advice is carried out properly, one wonders as to the extent of usefulness of such an organisation. So long as there is no sanction behind the advice of such a body, the departments of the Central Government or of the States may continue to follow their own particular policies. In the second place, the enthusiasm of the personnel of the organisation itself will tend to be affected adversely, if it remains merely an advisory body. At least powers of constant supervision should be bestowed on the organisation. There is also need for expanding the organisation by the recruitment of suitable staff. The greatest difficulty in a large country like ours, in which both in the political and in the economic sphere, there is large scope for autonomous action on the part of governmental organs, is that the national point of view tends to be ignored. The economic system is closely interrelated and any important action in any part of the country which is at variance with the general policy is likely to affect the entire system. The absence of adequate knowledge and training in the intricacies of economic laws is mainly responsible for this. One of the common misapprehensions among Government circles is that they tend to identify economic problems with engineering problems. The engineering problem is mainly one of adopting the appropriate technique in order to carry out a certain scheme. The economic aspect of the problem deals with the effects of the acceptance of certain schemes on resource utilisation. The economic problem is wider in scope than the engineering one. The experience of the last few years must at least teach one lesson that we ignore the economic implications of development plans at our direst peril. It is also not uncommon among official circles to confuse between statistics and economics. A person highly qualified in statistical techniques is generally not a substitute for a person highly qualified in the science of economics. The

elementary fact that statistics is a tool of economics and other sciences is often ignored.

(2) There is a tendency to emphasise the representative aspect of organisations. In so far as a given organisation is constituted on the basis of the need for representing different interests, it may be difficult to arrive at decisions which are in the interests of the community as a whole. The usual practice in such representative councils or committees is to formulate decisions and proposals which try to satisfy to some extent the interests of each party. While from the point of view of political satisfaction such a device might sometimes help, the compromise decisions thus arrived at may not necessarily be in national interests. That is why we suggest that there should be as far as possible a greater weightage given to experts and specialised personnel in the formulation of policy.

(3) There is bound to be some conflict between the national requirements of centralising authority versus the need for decentralising responsibility. In an undeveloped country it may be necessary to emphasise the national view-point at each stage. Such a view-point may however be against the particular interests of different regions or States. If the latter interests are given greater predominance in decisions regarding the allocation of resources, complications will set in and the extent of development would be less than what would have been otherwise. It is, therefore, necessary to be cautious in decentralising responsibility at the early stages of planning in a country like India.

(4) An important problem regarding administration is, whether under the existing circumstances additional expenditure should not be incurred on administration so that it may be better equipped to carry out the new duties. The Commission, however, has not made any financial provision for expansion in administration. There has been a tendency to consider the outlay on administration as non-

development expenditure. This may be so in so far as the actual police functions of the State are concerned. But to the extent that the Commission formulates large-scale targets in respect of several fields and makes them dependent upon the degree of success attained in the execution of such efforts by the administrative personnel, we feel that there is need for a reconsideration of the attitude regarding administration. This might mean that the expenditure on administration will increase, but in so far as production can be increased by such organisational changes, will it not be desirable ? We suggest the following criteria for administrative improvements: wherever it can be proved that additional administrative expenditure on reorganisation or on recruitment of new personnel is expected to lead to distinct additions to agricultural or industrial output, or where such changes are likely to lead to improvements in productive efficiency, they should be considered as productive, and the increased outlay on administration should be deemed fully justified.

Economic Administration Service

The Commission has not made any suggestions for the improvement of the Civil Service so far as their equipment regarding the new tasks under the Plan is concerned. It has been assumed in the Plan that the existing administrative arrangements in the country will be, more or less, adequate to implement the Plan. It has also been assumed that no substantial addition will be made for expenditure on administration. These assumptions require careful examination.

It is well-known that the functions of the State in the economic sphere increased considerably during the War. Whereas the War-time arrangements were of an emergency nature, we have now a different situation. The entire concept of the functions of the State has changed. While the State was essentially a Police State, mainly concerned with the

maintenance of law and order under the British, it is now trying to be a Welfare State. Under the Constitution, the State has been charged with the functions of bringing about the economic and social welfare of the people of the country in a variety of ways. Besides the steps already taken by the Government in this connection, the Five-year Plan is the most important manifestation of the new policy of undertaking more and more economic functions on behalf of the State, either directly or indirectly by regulating the activities of the private sector. In other words, the State has now assumed the responsibility of determining the way in which the economic life of the millions of people in this country should be organised, run and developed. It proposes to do so by regulating the majority of activities which are left to private enterprise, having under its direct control a limited amount of activities, which it is in a position to finance and manage on its own. This situation has already created and will create complex economic problems such as the repercussions on the minds and actions of producers in all fields of a given measure undertaken by the Government or of a given regulation enforced by the State. It is also creating difficult problems of co-ordination of economic activity between the two sectors. It is thus obvious that the work of public administration in this country has widened considerably ; besides the work of maintenance of law and order, an increasing amount of work has been undertaken by the Government which can be broadly described as economic administration. The assumptions in the Report referred to above imply that in the opinion of the Commission, the Civil Service, as now recruited and organised, is competent to undertake the execution of these new functions.

The members of the Indian Civil Service or now of the Indian Administrative Service are recruited by means of an open competitive examination. Candidates have to appear in a wide variety of subjects, a few of which are compulsory, but others are optional. The selection is confined to those whose performance at the examination entitles them to a

high rank. It is true that a *viva voce* test is taken and that some training is subsequently given to those selected. But what the system tests is the general capacity of the candidates, who after some training in administration may be expected to bring this capacity to bear on problems of daily administration, such as the maintenance of law and order. No attempt is made to see that the candidates selected have any special knowledge of economic problems and economic administration. In fact, as things are, it is more easy for students who take some other subjects, such as mathematics and science, to obtain higher marks and secure the necessary rank in the competitive examination than those who take subjects like economics. It is possible that persons so selected, after getting some administrative experience either in districts or at the secretariat, are put in charge of important functions relating to economic administration. Whereas a few members of the Service during and since the War have shown their capacity to adjust and carry out the new duties with a reasonable amount of success, it is well-known that the majority of such persons have not been successful and have merely made experiments in the art of economic administration and tried to learn by committing mistakes, some of which might have caused considerable damage to the public—damage which cannot be statistically measured. Whether it is a department dealing with price control or trade control or a river valley project or an industrial, banking or transport undertaking of the State, a member of the Civil Service is assumed to be fit to occupy the key position. There is no desire to find fault with individual members of the Service; the fault is with the system and with those who have so far failed to see the weakness of it. The inevitable consequence of this situation is that the people of the country form a huge economic laboratory on which the lay administrator is given the power to make economic experiments.

The British authorities were conscious of the limitations of alien rule in a large country like ours, and in order

to maintain their authority decided to concentrate power in the hands of the members of the Civil Service, who were trained into a tradition of enforcing British authority as desired by the British Government, irrespective of popular opinion. For example, the District Collector was endowed with such an amount of power that he could be looked upon by the people of the district as the representative of the British Raj and the embodiment of British power. The Executive Members and the Secretaries to Government Departments, who were responsible for making policy and issuing directives to implement the same throughout the country, were also drawn from the Service and wielded enormous power. For example, one has to recall the enormous prestige and status which centred round the senior members of the Civil Service who rose to the top ranks in Government under the British Administration. Whereas concentration of power in the Civil Service in the above manner was a necessary part of British rule in this country, the continuation of the same policy under the new conditions creates an anomalous situation.

It may be asked whether the members of the Civil Service are endowed with the necessary capacity to grasp correctly the complex and rapidly changing economic phenomena in this large country as well as the effects of external economic forces. There can be only one answer to this. The question is whether persons with only a general training should be entrusted with the task of economic administration, which if badly handled may lead to disastrous results. The Planning Commission rightly emphasizes the need for public co-operation and understanding of the Plan. Will it be able to evoke such understanding and co-operation, if the implementation of the Plan and allied activities is left deliberately in the hands of those, who by common consent are, with a few exceptions, not well-equipped for the task? Any unprejudiced observer would come to the conclusion that a complete overhaul of the adminis-

trative machinery is required at least so far as economic administration is concerned, if the Plan is to succeed.

It is often pointed out that the economic expert may be consulted only for giving advice, but that he cannot be trusted with administration. And on this consideration the continuation of the present system is advocated, particularly by those interested in the retention of power. The concentration of power in the Civil Service, which was a feature of British administration, and the continuation of the system now, in spite of increasing functions of the State, has resulted in a situation in which the Civil Service today wields much greater power on the lives of the people of the country than at any time in the history of British rule. Under British rule it was more a question of law and order; now it is interference in the daily activities of the millions of people of the country professedly in their own interests. The Civil Service is not likely easily to agree to a change in the system. An acceptance of the suggestion made above would certainly reduce the growing power of the Civil Service and would perhaps be resisted by them to a man. And so long as the popular ministers have not developed the necessary administrative capacity or understanding of complex economic issues, it is obviously easy for the Civil Service to have the upperhand in problem of this nature. The tragic dependence of some ministers on the Civil Service in making policy decisions is an open secret.

The remedy is the institution of a separate Economic Administration Service for which persons should be recruited firstly, on grounds of advanced knowledge of economic principles, methods and techniques besides general capacity. Such persons should be given practical training, in the form of experience in business or industrial establishments in this country as well as in foreign countries, or in Government departments, where efficient economic administration is being carried on, either in India or in foreign countries. Persons so trained should be started as in the case of other

services as junior officers in departments of Government charged with economic administration. They should have opportunity once in four or five years to refresh their contact with the latest economic technique in view of dynamic changes in this field. Such a service should be in no way inferior to the Civil Service. In point of status, remuneration and conditions of service, members of the proposed Economic Administration Service should be on a footing of perfect equality with the Civil Service. It would thus be possible to combine in this service a clear understanding of economic forces with administrative experience, and in due course persons so trained, if put in responsible positions are bound to be capable of carrying out the new functions the State has now undertaken. If it is suggested that the creation of any such service would mean additional cost, the obvious answer is that the cost would be entirely justified, that it would be small in proportion to the loss now being incurred by the handling of economic affairs by persons not well-equipped for the task, and that the omission of this consideration by the Planning Commission is so serious that it is likely to defeat its object of successfully implementing the Plan.

XVIII. MOBILISATION OF SURPLUS LABOUR AND TIME

Nature of Disguised Unemployment

An extremely notable suggestion made by the Planning Commission deals with the utilisation of the surplus time of labourers in wealth producing activities. In a country which does not possess adequate capacity to manufacture different types of capital equipment, the ability of the community to offer paid employment to the people is limited. The

activities of the public as well as the private sector can only lead to the employment of a minor portion of the population As a majority of the people of the community is engaged in agricultural pursuits, and as agriculture is a seasonal occupation, there is the enormous supply of surplus time and energy, for which on account of the limitations, of the country's resources, we have not been in a position to provide suitable avenues of employment. Secondly, a good portion of the labour force in the villages would tend to be surplus if certain reorganisations and changes are introduced. It is in this context that people generally refer to the prevalence of disguised unemployment in agriculture. On account of the lack of opportunities of employment in other pursuits people tend to cling to agriculture. With the increase in the size of the population the volume of disguised unemployment increases, as there is no corresponding increase in the ability of the community to absorb in gainful employment the additional population. The wage level as well as the earnings of agriculturists also tend to be depressed on account of these circumstances. From the point of view of a long-term remedy for these maladies it is true that large-scale industrialisation offers a way out. But in a country like India the pace of industrialisation is bound to be slow on account of intrinsic limitations. The community will have, therefore, either to accept the continuance of both seasonal as well as disguised unemployment, or to adopt certain self-imposed restrictions and commitments suchwise that labour, which would have been otherwise idle, is utilised for augmenting the capital wealth of the community till conditions change by greater industrialisation. Unemployment in a country like ours is a structural characteristic of the economy, unlike in advanced countries where unemployment tends to result on account of trade fluctuations as well as on account of certain organisational deficiencies. Even in advanced countries, it has been found possible to devise ways and means to maintain the community in a state of full employment on the lines suggested by Keynes. In a

backward country like India, any organisational effort on the part of the Government is not likely to lead to full employment immediately. But, should we resign ourselves to this situation and do nothing ?

New Approach by the Commission

The Planning Commission has suggested that 'under the conditions of our country it would be possible to utilise the surplus labour of individuals in certain forms of activities which do not require large-scale supplies of capital equipment or materials. Suppose, for example, the villagers in a community were to be organised in such a manner that they are induced to utilise their spare time for purposes of constructing roads, buildings, or small irrigation dams or canals, etc., and suppose these types of activities are voluntary in character, it would be possible to augment the community's capital resources without any large-scale deployment of scarce materials. Ultimately it can be stated that even all forms of capital take their origin in labour. To the extent that the utilisation of the energies of villagers in wealth producing activities, does not involve large commitments on the finances of the community or on its scarce resources, such activities would indeed be a radically new way of developing the community. Under the existing conditions of the country there may be perhaps no other way, the alternative being the continuance of idleness. The suggestions of the Planning Commission in respect of Village Production Councils are steps in the right direction. If the village folk could be imbibed with enthusiasm for the carrying out of these suggestions, and if such campaigns attain a national character there would definitely be considerable improvement in the standard of living of the community after a period of years.

Limitations in the Way of Voluntary Work

What are the possible limitations in the suggestions described above ? In the first place, it would be incorrect

to think that utilisation of the spare time of villagers or of other members, in wealth producing activities would not create any burden on scarce resources. Construction of irrigation dams, tanks or wells or of buildings requires certain supplies of constructional materials which the community may not be in a position to spare. In the second place, we have also to consider the extent of co-operation that would be forthcoming in the absence of monetary rewards. In the third place, we have also to consider the quality of work that would be done. It may, therefore, be necessary, as the Commission itself has suggested, to have certain technical assistance wherever the schemes for the utilisation of the spare time of village labour are under way.

As regards the commitment that these efforts would involve on the scarce resources, the Commission has to work out the possible saving in capital that would accrue provided certain materials are diverted for voluntary efforts. It is true that there are various activities wherein labour and capital can be utilised in varying proportions. A given task may be performed either with a higher ratio of capital or with a higher ratio of labour. The necessary investigation to ascertain the type and nature of the activities wherein labour can be a substitute for capital should be carried out. The coefficients of production in terms of both the factors must be worked out. A good deal of research work has yet to be done in this direction and we hope the Commission would make suitable arrangements for the same.

The other question that arises is how far labour can be mobilised for the activities described above without the need to pay money wages. It may be said that from the overall point of view somehow or other all persons in the community must be supplied with certain basic consumer goods ; otherwise they could not have subsisted. It is, therefore, very common to hold that the utilisation of labour in the above mentioned activities should not lead to any additional demand for goods and services. In this context

we must point out that, when manual labour is to be performed, the need as well as the demand for certain goods increases. If money wages are paid, these demands would lead to certain additional pressures on limited goods. If payment is to be made in terms of real wages or in terms of kind, the commitments of the Government in order to provide basic goods for the additional labour would increase. From the immediate point of view, what we feel is that the Government may resort to payment in kind in order to mobilise additional labour for the minor projects discribed above. It would not be healthy in the interest of the community to increase the monetary pressures. In the rural areas, the offering of wages in kind would definitely have a good deal of response.

While the suggestion to utilise the spare time of villagers already employed is praiseworthy, it would be necessary to provide also for the employment of those who are not at present deriving any significant incomes from the employment they are having. If the villagers co-operate and think of these schemes with enthusiasm and zeal, the entire village would tend to benefit. For this leadership and discipline are very important. Constructional activities should be conducted under the guidance or supervision of some persons. It may be necessary also to introduce certain outside elements into the villages in order to inculcate a desire for work on the part of the villagers. In many cases, it is only the influence of catalytic factors that leads to development.

Factors determining Response for Voluntary Effort

In this connection we might appropriately point to the work that has been done in the townships of Faridabad and Nilokheri near Delhi. A number of displaced persons joined together, and on account of the co-operative work that they put in, were able to construct in a very short period model townships. In the construction of these town-

ships, all the displaced persons contributed their manual as well as other types of labour. If the townships had to be constructed on the basis of a commercial proposition or for example, if some contractors had been asked to hire labour and construct the townships, the cost would definitely have been very high. Due to the enthusiasm of the displaced persons and the common bond that existed among them resulting from the common suffering that they had all to undergo, it was possible to save a good portion of money by volunteer work. We do not know how far the same zeal and enthusiasm can be transferred to other parts of the country. It must be noted that the displaced persons were not residents of these areas and came from outside. The urge to build and to employ themselves was very keen on their part. There was also a large amount of unity underlying their efforts. If the same amount of co-operation and willingness to put in voluntary effort, even though in the form of manual labour, is forthcoming on the part of different villagers, certain forms of wealth may be created. In most of the villages it has been found difficult to inculcate a desire for any such work. A good deal of educative effort is necessary before the villagers can be brought together for common voluntary work. The Government may, therefore, have to spend certain additional amounts of money in training extension workers who would be entrusted with the task of awakening the dormant forces in the village. The Government may also have to pay greater attention to spreading education in the rural areas.

While it may take considerable time before results can be achieved in these directions, the Planning Commission must be congratulated on the new outlook that it has introduced in this respect.

XIX. POPULATION CONTROL AND FAMILY PLANNING

Importance of the Population Problem

The immediate objective of the Five-year Plan is to restore pre-War levels of consumption. The question may be asked as to whether we are going forward or going back. The answer to the riddle lies in the fact that so long as the size of our population goes on increasing, the material results of all efforts at increased production barely make up for the needs of the large number who are added to our total population, let alone make for increase in the *per capita* standard of living.

The Planning Commission has clearly stated that under present conditions an increase in manpower 'resources' does not strengthen the economy but, in fact, weakens it. It has, therefore, drawn attention to the need for bringing down the birth rate. The main efforts are to be devoted to educating public opinion regarding the need for the limitation of the size of the family. According to the Commission, beyond providing facilities for sterilization, giving advice on contraception, and encouraging research on methods of birth control, the State cannot accept any major responsibilities in this field.

It may appear somewhat paradoxical that even though recognising the vital urgency of the problem, the Commission resigns itself to the view that success can be only limited in this sphere. It is therefore necessary to analyse in some detail the nature of the population problem and the possibilities of taking effective steps to control the rate of growth in our numbers. So long as any activity is having its repercussions on the economic conditions of the country as a whole, and in so far as individuals left to themselves are not in a position to understand and appreciate the full social significance of their actions, it lies in

the sphere of the activities of the State to introduce measures which bring about a harmony between individual and collective interests. In the case of the population problem, it is not only necessary for the Government to take initiative in introducing control measures, but also it would be suicidal to the country's long-term interests not to pursue an effective policy. A negative or lukewarm attitude in regard to population control would cut the very ground under all efforts at economic planning.

Population Pressure and Shortages

While the population of the country has more or less doubled during the last fifty years, there has not been a significant increase in the area under cultivation. The extent of progress in respect of irrigation has also been limited. Though there has been expansion in the industrial sector, the pace of industrial development has been far too slow to provide for the rapidly increasing population, and also to absorb a larger number of persons from the agricultural sector. The economic implications of the rapidly increasing disequilibrium between our productive capacity and the needs of the growing population have been fully brought out during the last few years. We have been witnessing continuous shortages in respect of almost all the commodities. The capacity of many of our industries cannot be fully utilised on account of lack of supplies of agricultural raw materials. In respect of food requirements our deficit is increasing year by year on account of the increasing population and the vagaries of rainfall. The resources that can be diverted for capital projects are limited and there are pressing demands from all quarters for the same. Though the potential resources of the country are of considerable magnitude, our ability to harness them is seriously conditioned by the supplies of capital equipment and technique. For supplies of most items of plant and machinery, we are still dependent on imports. In respect

of foreign exchange, we have been finding that food imports have been making deep cuts into our resources. Unless the situation is remedied, we may find that within a period of a decade, not merely all our sterling balances would have been utilised, but even the greater portion of the current foreign exchange earning would have to be utilised for imports of foodgrains.

Population and Agricultural Capacity

All these tendencies bring to the forefront the urgency of the population problem. This should not be viewed as merely one of increasing pressure on land. From the broad point of view, increasing population in an economy whose capacity for increased production is limited, leads to the utilisation of larger and larger quantities of resources for the satisfaction of the basic needs. No modern Government can ignore the responsibilities for providing food for all sections of the community. To the extent that the food deficit tends to increase with an increase in population, the community's ability to produce more of agricultural raw materials for industries becomes limited. So long as the background situation is one of a glaring disequilibrium between productive capacity and population growth, it will be difficult for the community to think in terms of augmenting the supplies of capital equipment and thus increasing the rate of utilisation of unutilised resources. Production requires not merely the assistance of labour but also depends on supplies of capital equipment, technical skill, basic materials, raw materials and other factors. The mere fact that a community has excess supply in labour does not necessarily lead to an increase in the ability of the community to utilise unharnessed resources. All the efforts of the community will have to be devoted for assuring an adequte supply of the basic essential supplies for the entire population, till an improvement is effected by other means. It is no wonder that with an increase in the size of population, the *per capita*

sown area has continued to decline. It is also no wonder that the community's irrigation potential has also not proportionately increased. An increase in the sown area can be brought about provided there are large acres of uncultivated, but cultivable land, lying waste, and provided the community can get access to supplies of capital, in monetary as well as in real terms, in order to bring these lands under cultivation. Irrigation as well as reclamation projects require large financial outlay. To the extent that the limited resources of the community are utilised for augmenting the agricultural capacity of the country, resources available for industrial development are bound to be less.

Industry versus Agriculture

The development process of a backward country has thus to proceed perhaps on excluded lines. If the community has to think in terms of increasing the pace of industrial development, it has at the same to reconcile itself for a lessened tempo of development in respect of agriculture. On the other hand if the community thinks in terms of concentrating on rapid agricultural development, it has to neglect the industrial aspect of the economy. It is true that the development of either industry or agriculture has certain repercussions on each other. If agricultural development takes place, it is possible for the community to provide a large supply of raw materials for the industries. In other words, the raw material base of the economy will be strengthened. If the resources are concentrated on the development of basic industries, the technological base of the economy will be strengthened and at a later date the community will be in a position to expand the scope of activities directed towards agricultural expansion. *During the process of development, however, the community has to make a choice between insdustry or agriculture.* In a community which has a high potential in respect of population growth, there is need for devoting particular attention

towards the degree of emphasis to be placed on the development of either industry or agriculture.

Disequilibrium between Population and Productive Capacity

From the long-term point of view, granted the assumption that population will go on increasing, the community has to think in terms of measures which help in the building up of the technological base of the economy. The rate of production of goods and services and the pace of increased in the employment opportunities have to be far larger than the rate of increase in the numbers of people who are eligible for employment. If the people are in a position to attain a higher standard of living within a relatively short period, it would be possible for us to expect that the natural forces making for a decline in birth rates would operate. But until that period we have to resign ourselves to a position of disequilibrium between population and productive capacity.

The crucial problem posed before the country is that we cannot depend upon the operation of the natural forces in order to bring down the rate of growth of population. The very objective of attaining a higher standard of life for a majority of the community cannot be attained so long as the disequilibrium between population growth and our rate of expansion in important resources persists. This disequilibrium has to be remedied on two fronts. On the one hand, we have to concentrate our limited resources on the building up of a technological base in the economy, which alone would assure us the possibility of a larger rate of expansion in agricultural capacity at a later date. On the other hand, we have to concentrate our efforts on active propaganda in creating a consciousness among the public about the need to bring down the birth rate.

It is very common among economists to point out that industrialisation is a remedy for abnormal population growth.

In the case of India, it must be constantly noted that rapid industrialisation as an ideal can never be a practical proposition so long as the continuous addition to our numbers creates increasing pressures on our limited resources for purposes of utilisation in the provision of basic essentials of life. It may be noted that while the population of the country has increased during the course of forty years by as much as nearly 40 per cent., the increase in the area under cultivation has been less than 20 per cent. Even though there has been 80 per cent. increase in the area under irrigation, considering the magnitude of the problem, this was barely sufficient to make provision for the increasing needs of the country. The slow increase in agricultural capacity has been responsible for putting a check on the rate of development of industries, which depend upon agricultural production for supplies of raw materials. A large portion of the area under cultivation has, of necessity, to be devoted to production of cereals. If the present tendencies in India continue, it may be necessary at a later date to radically curtail the acreage under commercial crops with consequent repercussions on the industrial structure. The above remark should not lead to the conclusion that our potential capacity for agricultural production is limited. It only points out to the technological gap that is preventing the full realisation of the potentialities in respect of agriculture. Unless we increase our capacity to spend resources on construction of irrigation dams, it will be difficult for us to expand the area under cultivation or to increase the agricultural production from the existing area. Unless we expand our capacity in respect of supplies of fertilisers, it is difficult to bring about an increase in the yield of agricultural crops. Large-scale outlay on flood control as well as water-logging is necessary from the point of view of creating a situation in the community wherein we can be definite about the quantities of agricultural production.

Population Growth, a major Retardatory Factor in India

The position in the country today is that we have a rapidly increasing population on the one hand, and on the other a rapidly diminishing capacity on the part of the country to maintain a given standard of life for all, let alone the question of an increase in it. A proper solution of the economic problem has to take note of both the aspects of the problem. At the same time that we concentrate our efforts in pooling our resources for increasing the agricultural as well as the industrial capacity of the community, we should devise ways and means by which the rate of growth of population is kept in reasonable check. If we do not take care to make arrangements for the latter aspect of the problem, we will soon find that the limited success that we achieve in trying to restore the pre-War level of standard of living would be defeated soon on account of a large increase in population. We must remind ourselves that beyond a particular point an increase in numbers instead of acting as a catalytic factor for development, acts as a drag and hindrance. In the case of some of the advanced countries like the U.K. the long-term implications of a declining birth rate are considered as of serious impact to the very maintenance of the high standard of life which these countries have attained. In these countries a falling off in the growth of population leads to a rate of decline in the supply of labour as well as of effective demand. It is difficult to sustain a high rate of investment under such conditions. In the case of countries like India a large increase in the size of population is more a curb than a helpful factor for development. An increase in population over and beyond the capacity of the country to provide for the essential goods not merely acts as a serious retardatory factor in all efforts at economic development, but also limits the horizon of potential achievement at each stage.

The Need for a Population Policy

It is true that a population policy adopted in the country now, would not lead to immediate results. But from the community's point of view, we cannot confine ourselves to a period of five-years alone. It may be that after a decade, the population policy might lead to some significant results and the efforts of the planners in 1961 may be crowned with better success, and they may be in a position to aim at more ambitious targets. That is why while we commend the Planning Commission's efforts in focussing some attention on the population problem, we are not satisfied by their complacency in failing to formulate a positive policy of population. This is a field in which the different political parties of the country can join together and co-operate in bringing about a national consciousness of the urgent nature of the problem.

The choice as to whether to have a baby or not is no longer a private decision, whose repercussions are to be felt within the family. Whether to have an additional baby or not is now a social problem of grave economic significance for the country as a whole. Whatever the party that undertakes office, its ability to work for the economic development of the country will be diminished to the extent that there is a large increase in population. It would be necessary, therefore, that a lead has to be given by the enlightened sections of public opinion as well as political parties to bring home to the citizens of the country, rural as well as urban, the crucial importance of family planning.

A positive policy in respect of population will have to aim firstly at enlightening national consciousness for this problem, and secondly, at making such adjustments in the system of incentives that those who have a lesser number of children are in a position to get additional advantages. The Government in this connection may have to stipulate that the salary as well as the wage scale would have a

particular relationship with the number of children. The Government may have to bring about alterations in its rules in respect of appointments so that only those who agree to limit the size of their families are taken up in Government service. Even in respect of rationing rules and regulations, it may be advisable for the Government to regulate issues of new ration cards in such a way that the potential tendency for having a large number of children is discouraged. Only a particular number of ration cards should be to a family depending upon the limit set by the State for the number of children for each family. A great effort, however, has to come from the private sector in this field. Whatever the system of incentives adopted in the Government sector should find its acceptance in the private sector also. If both the sectors co-operate in this field and if a sufficient national consciousness is aroused as regards the importance and urgency of the problem, we may find that the position in the country may be somewhat better at a later stage. Simultaneously, the Government should try to increase the age of marriage, both of girls as well as of boys, and to provide increased facilities for the education of womenfolk particularly in respect of family planning.

Whatever the scale of effort in respect of the policy for population, so long as the Government is not in a position to influence the rural sector, the success from a national point of view of such a policy would tend to be little. It is, therefore necessary to accelerate the pace of urbanisation by encouraging establishment of industries in urban areas and by providing for a larger amount of migration from rural areas. In respect of rural areas the Government may have to adopt tactful ways and means in order to make the rural folk understand the significance of population control. It is in this field that the leaders of political parties and the workers of the Sarvodaya Movement can exercise a great degree of influence. In a country like India it is possible for sincere leaders to achieve a larger degree of response

from the uneducated folk. The same spirit and zeal that was witnessed in respect of the Swadeshi Movement may have to be inculcated in the field of population control also.

XX. CONCLUSION

Full Employment in the Plan

In the preceding sections we have attempted to present a technical appraisal of the programme of economic development envisaged by the National Planning Commission and of the policy measures suggested by them. We have, however, refrained from criticising the Commission in its broad objectives. There is a school of thought which, holds that the Five-year Plan is unsatisfactory on grounds of deficiencies in objectives as well as approach. In the first place, it has been held that the Plan does not make provision for full employment, and in the second place, that it does not meet the ends of social justice. A careful perusal of the Plan will reveal that the approach and outlook of the Planning Commission have been more or less conditioned by circumstances beyond their control. To take the objective of full employment, we doubt whether any type of alteration in the structural framework of the country would lead to employment throughout the year for all the able-bodied citizens. The capacity of any country to offer paid employment to all its able-bodied members is governed by various factors. An increase in employment opportunities and in the ability to pay incomes to the persons who are additionally employed becomes possible only when the community's productive capacity and output increase. It may be possible to provide the semblance of employment to most of the members of the community by inflating the currency. While such a measure would provide an ilusion of full employ-

ment, it will not lead to any betterment in the quantity of goods available to different individuals. To provide full employment it is necessary to have a large flow of capital equipment, raw materials, technical personnel, and a higher degree of technical efficiency. To take agriculture for example, an immediate expansion in the employment opportunities available in the rural sector is dependent upon the possibility of new land being brought under cultivation. To the extent that it takes time to bring new land under cultivation, the community will have to be content with the existing volume of employment. The provision of new opportunities for the intensive exploitation of existing land under cultivation is also dependent upon supplies of accessory materials. It may be argued that the development of small-scale and cottage industries would provide some employment, where there is none. Actually the Planning Commission has made some radical suggestions in order to develop small-scale and cottage industries. We would, however, like to point out by way of caution that under the existing conditions of the country, an expansion of the small-scale industries by means of deliberate transfers of raw materials or other scarce resources would lead to the curtailment of output in the large industries. The total volume of employment is increased only when the total supply of materials increases.

Similarly, our ability to provide a larger volume of employment in the industrial sector is strictly conditioned by the availability of different co-operant materials. We must realise that the problem of full employment in our country is of gigantic dimensions. Even the advanced countries, with a very high state of economic development, find it difficult to maintain full employment. In India, the structural conditions of the economy place a serious limit on the volume of employment that can be profitably offered in the immediate or near future. One may, however, argue for an extension of the activities of the public sector. Why should not the Government undertake a larger number of

projects? Such an argument is based on the assumption that our ability to supply materials is unlimited, and that the mere embarkation on long-term projects would lead to instantaneous output. The pressure of population on land is so great, that with the best of efforts, it is possible to absorb only an insignificant portion of the population. The Planning Commission has directed its efforts mainly to create conditions of full employment. Unless we are in a position to undertake a far more rigorous programme of austerity for a number of years, it will be found difficult to expand employment opportunities. The criticism that the Planning Commission has not made provision for full employment is, therefore, based on a lack of understanding of the basic factors which determine the volume of employment.

There is one field, wherein it is possible to expand the productive capacity of the country without incurring undue additional pressures on scarce materials, namely in activities in which voluntary and honorary work is done. As seen earlier, the Planning Commission has made suggestions regarding the utilisation of surplus time and labour available in the rural areas. The construction of tanks, roads, buildings, all of which add to the capital wealth of the community, can be undertaken in different villages by voluntary organisations. We are afraid that even in such effort the scope is limited, on account of the shortages in the supplies of constructional materials and the need to divert such materials for urgent long-term projects.

Social Justice and Nationalisation

So far as the criticism that the Commission has not made provision for social justice is concerned, we find that to a great extent the approach of the Commission had to be conditioned by the philosophy accepted by the Government and incorprated in the Constitution. It is one thing to insist on large-scale redistribution of wealth, and another

thing to point out that such redistribution should not take place unless compensation is paid. It may be argued that the Commission could have got over the compensation clause, but that would be going far beyond the scope of the Commission. Moreover, the Commission has taken the view that redistribution of wealth under the present circumstances may lead to a decrease in production. Unless the community decides that compensation need not be paid and that property should be confiscated, and is prepared to face the economic and political consequences of such a decision, it would be unreasonable to expect the Commission to have suggested radical redistribution measures.

It has been said that the Commission has not made provision for the nationalisation of industries. On this issue, however, we feel that the Commission has adopted the right approach. Apart from the emotional satisfaction that nationalisation might give to those who desire socialisation of all activities as an end by itself, it must be noted that it would be inadvisable to concentrate on State ownership of existing fields of activities so long as there is great room for the utilisation of scarce resources for new fields of economic activity. To the extent that existing industries are nationalised, there will not be any net addition to output, but only resources that could have been utilised on new activities leading to additional output, would have been spent for the continuance of old activities, the only change being that they would be now conducted under the ownership of the State. Nationalisation of some industries in certain countries like the U.K. became possible on account of certain organisational and operational economies that could be achieved by it. It was also implicitly assumed that the rate of investment in the community would not be affected by nationalisation measures. On the other hand, in the case of India, one has to choose between a river valley project or the transfer of a particular industry to public ownership.

Realistic Approach in the Plan

There is also some dissatisfaction on the ground that the rate of investment envisaged is very meagre, and that the objectives are very modest. It must be noted that from the economic point of view the Commission's approach is valid. We may not be surprised if even the meagre rate of investment envisaged in the Plan may not be sustained under the existing conditions of the country. Ultimately, investment is sustained only to the extent that real resources are forthcoming. As our capacity to produce is limited, the rate of investment must be adjusted to it; otherwise there would be mal-distribution of resources. As regards the modest nature of the objectives of the Commission, it must be remembered that they mark a welcome departure from the ambitious and almost wild promises made by some ministers in recent years. The modesty of the objectives is not due to any desire on the part of the Commission to undertake a less rapid rate of development, nor it is due to a desire on their part to be satisfied with a low standard of living. The rapid rate of growth of population during the last few years, which must be assumed to continue also during the period of the Plan, has made it necessary that a large portion of the resources must be devoted to satisfying the basic needs of the community. We are not in a position even to provide basic necessities like food. It is, therefore, not surprising that the Commission has only provided for a standard of living which takes us back to the position in which we were at the beginning of the last War. Unless we check the rate of growth of our population, we have to be content only with a meagre increase in the standard of living. No organisational changes can bring about rapid transformation in the economy, so long as the population continues to grow far in excess of the community's ability to supply resources to feed the population.

It will thus be seen that the more important criticisms levelled against the Commission's Plan are based on a lack of appreciation of the intricate problems and limitations of a backward economy suffering from shortages in the supply of all materials, basic, constructional, raw or consumer goods. As the preceding chapters have shown, we do not hold that the Plan is of the optimum type. There is scope for improvement in many fields, but we feel that the basic approach has been realistic and practical. The Government and the Commission are gradually realising the significance of the basic limitations of our economy. At the same time they are making efforts to get over the 'cramped feeling' imposed by these limitations. It is true that in order to make for a greater degree of social enthusiasm and co-operation, the economic policy of the Government may have to undergo some changes for satisfying the demand for social justice. Some of the measures which can be taken immediately are :—(1) Quickening of the pace of land redistribution. The suggestion of deferred compensation may be relevant in this context. (2) Relief to the middle classes. This might take the form of some additional outlay on salaries to the members of this group; or it may take the form of benefits in terms of real income, or both. (3) Encouragement of groups and individuals capable of real industrial enterprise in place of the existing unenterprising group which controls industrial activity. (4) A programme of austerity embracing all individuals and groups, and (5) Stricter punishment for those pursuing anti-social activities.

Strategic Points of Control in the Economy

The Government today is in a position to control several sectors of activity. The Industries Act has given the Government widespread powers to take over the management of concerns which are not working in a manner suited to social needs. As the same time the Government has got powers to direct scarce national resources into vital fields. Through the Development Councils the Government can

execise a healthy influence on the working of the industries. The Banking Companies' Amendment Act has given the Central Bank wide powers over the activities of the commercial banks. There is now a greater degree of organisational link-up between the different wings of the monetary sector. The amendment to the Companies' Act has given the Government powers to free the shareholders from the mismanagement and abuses associated with the managing agency system. The restrictions on forward trading and the regulation of stock exchanges will lead to the curtailment of the speculative element. The constitution of Village Production Councils and of Registered Farms is a step towards introducing a much needed organisational agency in the villages so that the response from the rural areas for social needs might increase. At the same time we are having controlled distribution of scarce materials like coal, steel and cement. There is stringent control over imports and exports, and over the utilisation of foreign exchange. In the field of price control the Government has been making efforts to extend the scope of the procurement campaigns and to bring a larger area under the rationing system. The Commission has suggested that price control should extend to commercial crops also. The Government has gradually realised that it would be suicidal to follow a policy of decontrol under the existing conditions. An improvement in the control machinery has to be brought about by an improvement in the tone of administration and by the recruitment of proper personnel and not by the abandonment of controls. A large and widening gap between aggregate needs and aggregate supply makes it necessary that the control system must continue until large-scale improvements in our productive capacity have been achieved in the economic structure.

It is thus obvious that the Government has made several sincere efforts to establish strategic points of control over the entire economy. Even in the sphere of distribution the various State Governments have carried out commendable

land reforms. At the same time, the Government has made provision for larger welfare amenities for the workers. It is true that it is possible to expand the scope of such improvements. But the Government as well as the Commission are bound by the tempo of social opinion.

Need for Common National Front

The great merit of the Five-year Plan consists in the careful efforts that have been made to adjust the scope and magnitude of the planning programme in accordance with the financial resources that would become available to the community during the ensuing years. This marks a welcome departure from the previous efforts, wherein there was a complete lack of any relationship whatsoever between the nature of the planning efforts and the available resources. The mere fact that henceforth the planning effort at the Centre as well as in the States, would be in consonance with the supplies of resources is enough to indicate that we may entertain reasonable hopes regarding the fulfilment of the targets. The Report of the Planning Commission should not be constructed as an effort of any particular political party or Government wedded to particular views. In fact, the Prime Minister has spared no pains to bring home to the public, the need for considering the Report as a National Plan. It may be that there are several items in the Plan and in the recommendations suggested by the Commission that might not meet with the full approval of some sections of the community. Still, there is considerable scope for common effort in order to overcome the difficulties and stresses which are national in character, and which require a co-ordinated and uniform attack by all sections of the community, irrespective of differences of opinion in some issues. For example, to take the most important problem before the country, *i.e.* the need to bring about a reduction in the rate of the growth of our population, unless all sections of the community co-operate in accepting and propagating a common population policy, it will be difficult

for any party in power to undertake rapid schemes of development. The Five-year Plan has suggested the establishment of several voluntary organisations, in which common national programmes can be worked out by parties with different approaches and interests. Take the question of controls. As has been clearly demonstrated both in theory and in practice, the continuance of the control mechanism in respect of several scarce commodities is vitally essential from the point of view of maintaining economic stability in the country and for meeting the requirements of low income groups. Any departure from the policy of direct controls would be a dangerous experiment on the lives of millions of people. Unfortunately, there are several sections in the country, who look at the problem of controls only from the point of view of the impact of a given control on their particular interests, and who tend to ignore the supreme necessity for reconciling themselves with a system of controls so long as there is a wide gap between aggregate supply and aggregate demand. In this respect also, there is a common ground for the several progressive parties in the country to join together and to evolve a common programme of propaganda taking the form of a reasoned attack on vested sectional interests, by means of efforts to educate, convince and mobilise public opinion so that those aspects of Government's economic policy, which are rightly conceived might get a larger measure of appreciation and support. In the field of labour-capital relationship also, there is scope for having a common approach. It would not be in the interests of the country at present to allow wage increases in order to satisfy the clamour of some sectional interests. It must be remembered that under the inflationary conditions of the country, any wage increase for any one section is bound to react upon other sections. Ultimately, it would not be in the interests of the community as a whole. The Commission's suggestions for increasing the capital wealth of the rural sector by means of organised village efforts through Village Production Councils and other voluntary organisations merit the support of all parties. In all these considerations, it would be in the fitness of things to distinguish between those activities which lead to an increase in production and those which lead to a better distribution of the benefits that result from the production. If the different sections of the community agree to the objective of increasing the pace of economic development, they have also to agree to co-operate in the common endeavour to keep down the standards of consumption so as to increase the quantities of resources for investment. Under the existing conditions of the country, it would not be possible for the community to immediately increase the consumption standards or even maintain the existing standards and at the same time to plan for a larger rate of economic development. In this programme for austerity it might happen that several sections might feel considerable inconveniences as well as discomforts. These must be considered as sacrifices necessary for increasing the pace of economic development.

A careful perusal of the Commission's proposals will reveal that there are several fields in which it is possible to evolve a common programme, in which various sections of the community holding divergent opinions, even regarding the objectives to be attained, can co-operate and help to increase the capital wealth of the country. It is necessary also to encourage a functional approach towards all problems. It should be possible to evaluate the merits and demerits of different proposals and recommendations so that a compromise may be reached, which would tend to maximise the benefits that could be obtained. It is true that the rate of progress that can be achieved, even in spite of the best of efforts, can only be limited and it may not be possible to attain higher standards of living within a short period. This is not on account of any particular organisational deficiency as such. Anyone who is closely acquainted with the complexity of the Indian economic situation will recognise that the problem in this country is rather peculiar as compared to the problems of other countries, who were

able to attain a more rapid rate of development with certain organisational changes. We are not arguing against any organisational change as such. What we are pointing out is the need for caution so that we might not be under the impression that a mere organisational change in the country would lead to the dawn of a millenium. The problem of poverty requires an attack on all fronts and for several long years. Impatience is justified so long as it acts as a spur for further efforts, but would definitely be against the interests of the country, if it takes the form of a destructive temper, which seeks to tear everything to pieces under the illusion that the only factor retarding economic progress in the country today is the lack of a particular type of organisation.

Development of Economic Research

As will be apparent from a study of the earlier chapters, there is a large leeway still to be made. The Commission's plans and policy recommendations are not necessarily of the optimum variety. We are certain that the Commission itself would not claim infallibility for its estimates and policies. In a country like India, there is great need for a scientific study, discussion and assessment of different proposals. Up till now the Government of India has not given due importance to the development of research in economics and allied social sciences. It is not yet fully recognised that one of the essential preconditions for economic development is widespread correct knowledge of economic problems in general and the development of economic research and thought in particular. The interrelationships of various elements in our economic life have to be thoroughly studied before any planning efforts can be successfully made. Unfortunately due to the absence of lack of scientific analysis in various fields and the absence of co-ordination between the Commission's efforts and the research carried on in the Indian Universities, progress is difficult. Considering the number of problems that has to

be investigated and the nature of inter-relationships that has to be studied, the scope for work is unlimited. For example, many of the Commission's arguments and estimates are based on assumptions not founded on the solid base of scientific investigation. It is in this context that all serious thinkers in the country and those who are actually concerned with the framing of policies and implementation of the same should realise that so long as we do not have collateral development in economic research, we will not have that degree of percision and success which we want in our planning efforts. The Government have already started various laboratories in respect of natural and physical sciences and invested large amounts for development of research in these fields. It is time that the Government gave more attention to the development of the science of Economics—both teaching and research—in our country. One of the recommendations of the Commission is that research in social sciences should be encouraged. Nothing short of an organisation parallel to the Council of Scientific and Industrial Research and the large amount spent on it, will do for the proper development of the teaching of Economic Science and Economic Research. It is to be hoped that due attention will be given without delay to this important aspect by all those concerned.

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